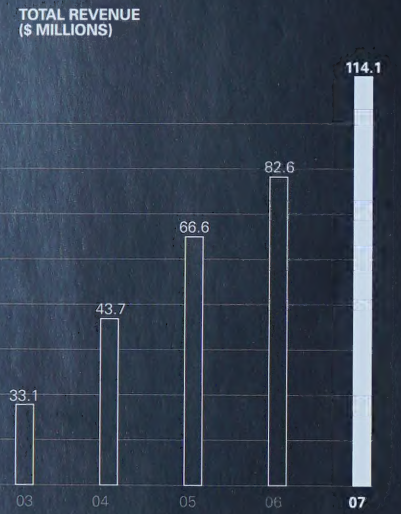
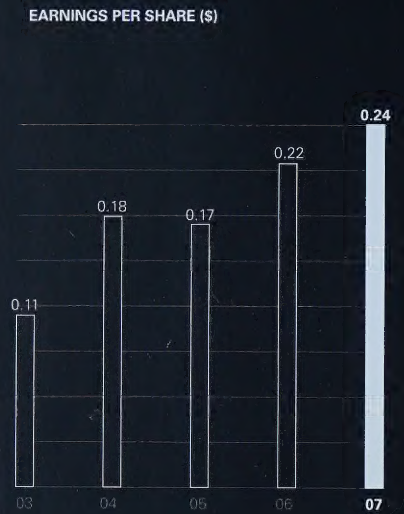
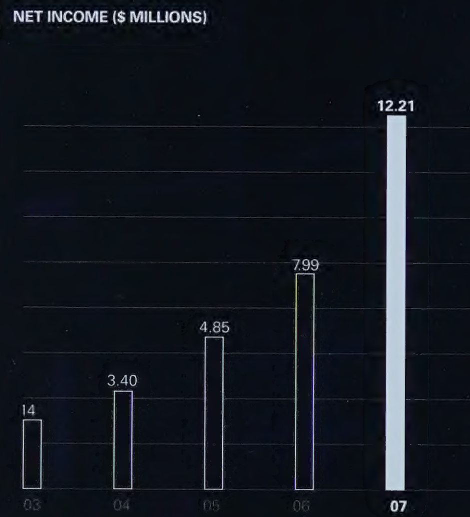

Relationships
Western Financial Group
2007

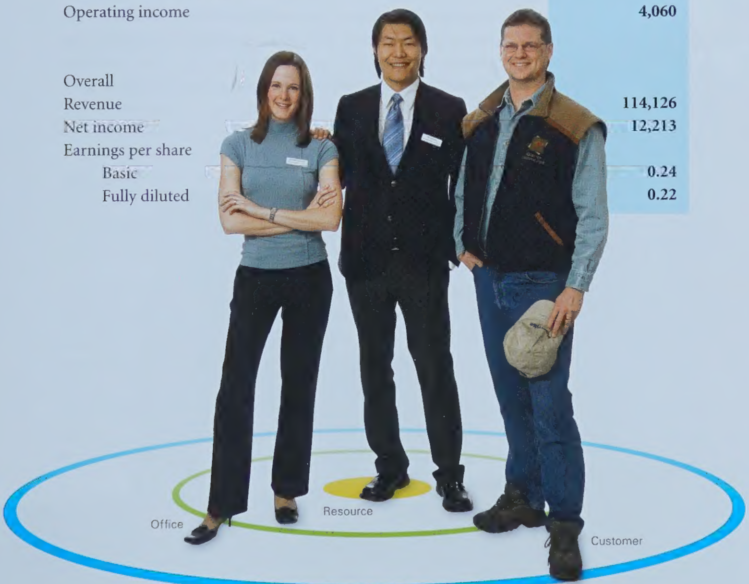

TOTAL REVENUE
($ MILLIONS)
33.1
43.7
66.6
82.6
114.1
03
04
05
06
07


EARNINGS PER SHARE ($)
0.11
0.18
0.17
0.22
0.24
03
04
05
06
07


NET INCOME ($ MILLIONS)
14
3.40
4.85
7.99
12.21
03
04
05
06
07

FINANCIAL HIGHLIGHTS

($ million except per share accounts)	2007	2006
WFG Agency Network		
Commissions and other customer revenue	**66,408**	46,674
Operating income	**19,795**	14,308
Bank West		
Interest and investment income	**13,805**	8,214
Net interest and investment income (after provisions)	**4,596**	2,991
Operating income	**1,090**	218
Western Life Assurance		
Premium and investment income	**30,096**	25,686
Operating income	**4,060**	2,581
Overall		
Revenue	**114,126**	82,643
Net income	**12,213**	7,988
Earnings per share		
Basic	**0.24**	0.22
Fully diluted	**0.22**	0.20



2007 ACHIEVEMENTS

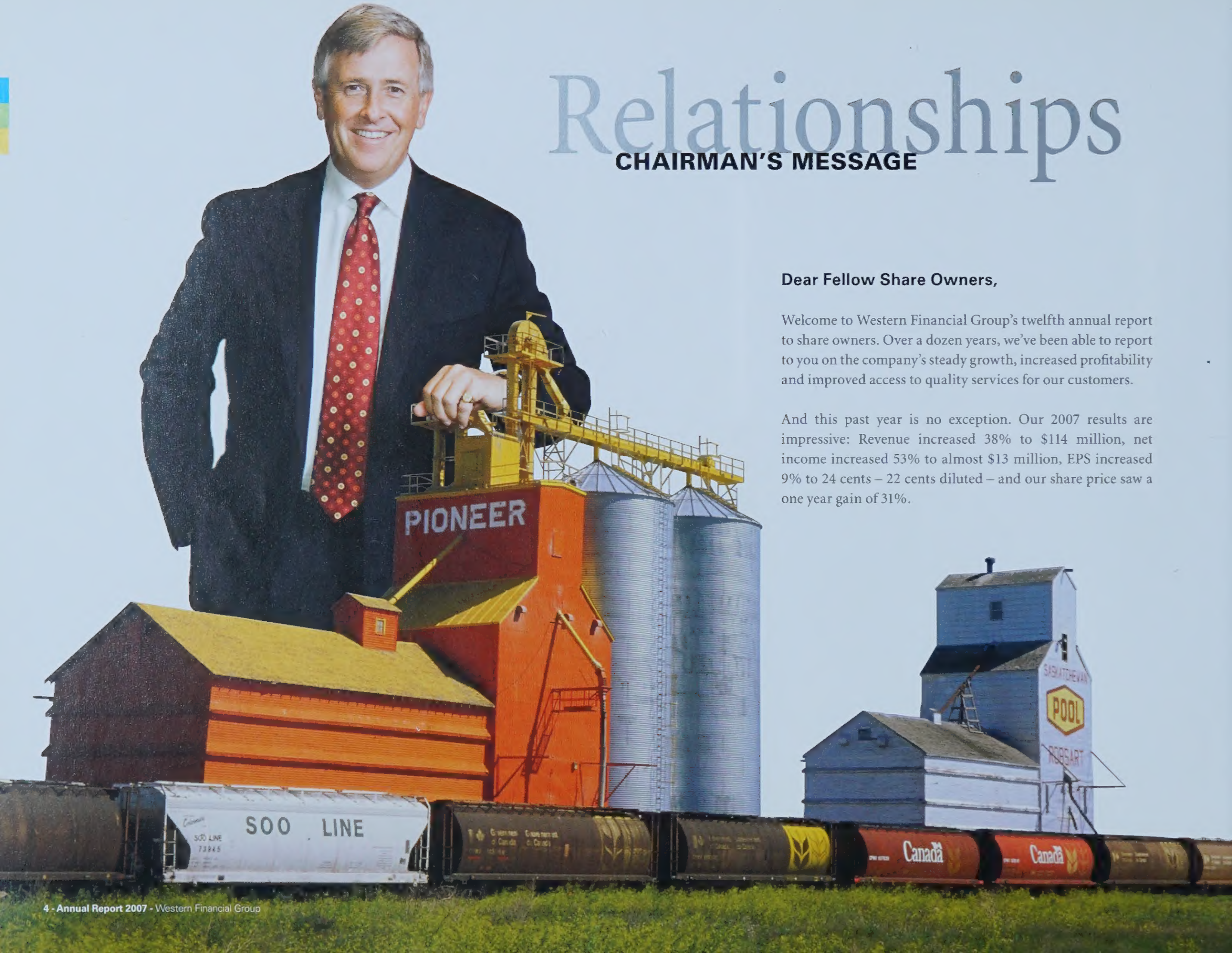
2007	2006	
38%	24%	Revenue increase
53%	65%	Net income increase
847	687	Number of full time staff
114.1m	82.6m	Total gross revenue
17%	19%	Debt to equity ratio

KEY BUSINESS DRIVERS

7.7%	6.9%	WFG Agency Network same store revenue
2.30	2.29	WFG Network Products per customer account (PPCA)
9.4%	8.4	Return on common equity (ROE)

Relationships

CHAIRMAN'S MESSAGE



Dear Fellow Share Owners,

Welcome to Western Financial Group's twelfth annual report to share owners. Over a dozen years, we've been able to report to you on the company's steady growth, increased profitability and improved access to quality services for our customers.

And this past year is no exception. Our 2007 results are impressive: Revenue increased 38% to $114 million, net income increased 53% to almost $13 million, EPS increased 9% to 24 cents – 22 cents diluted – and our share price saw a one year gain of 31%.

"To succeed in the West, you have to understand the West. Westerners have a keen sense for those who have their interests at heart. It's about trust. It's about relationships."

We have some important achievements to celebrate in each of our business units. Bank West's acquisition of Ubiquity Bank in British Columbia, Western Life's banner year, and the numbers put up by the Network in revenue and same store sales show that we are making significant progress across the entire company.

To succeed in the West, you have to understand the West. Westerners have a keen sense for those who have their interests at heart. It's about trust. It's about relationships. Many of our offices have operated in their communities for generations, some for over 100 years. And because Western Financial Group has been built from the grass roots up, the values and culture that drive our principles and operating practices are distinctly western.

It is not by accident that integrating new, independent businesses into our company is accomplished with a minimum of cultural shock. We are the same. We are all westerners, first and foremost. The same relationships that we have with our community neighbours and friends are the relationships we have with our suppliers and employees. And because of our openness and straightforward operating style, we're aligned with our customers.

The Board continues to be impressed by the hard work and dedication Scott Tannas and his senior leadership group devote to building your company. This team shoulders the task of building a fast-growing company, while at the same time overseeing the management and administration of increasingly more complex operations, a challenge they continue to handle with competence.

I want to thank the Directors for their service to your company. The Board acts as the stewards of Western Financial Group, exercising independent judgment as we work along side management, monitoring their efforts and safeguarding the interests of you as shareowners. We continue to believe that good governance is a competitive advantage for Western Financial.

On behalf of the Board, I want to thank Scott and all of the Western team – from front line reception to back office team members to brokers and loan officers – for their enthusiastic support and dedication to our mission and values. Their collective efforts resulted in another record year for your company.

And to our fellow share owners, thank you for your commitment to Western Financial Group.

Jim Dinning
Chairman of the Board

Relationships
PRESIDENT'S LETTER

The theme of this year's report is about relationships. Our business has been built by relationships that have at their heart the four guiding principles of Truthfulness, Fairness, Value, and Loyalty. These principles are the secret to the past and future success of Western Financial Group. The application of these principles are fundamental in our communities and with our customers.

"Out – local the nationals, and out – national the locals." This phrase strikes a chord with me, as it represents precisely what we at Western Financial Group believe we are uniquely capable of doing.

"Out – localling" the big guys… We have a depth of relationships with our customer base that only comes when one is in the same place, physically and philosophically. We are a small town company, made up of people who share the same thoughts and dreams and values as our customers.

Western Financial Group's
Head office in High River, Alberta.

> "Out Local the Nationals and Out National the Locals." This phrase strikes a chord with me as it represents precisely what we at Western Financial Group are capable of doing."

In fact, we were reminded in a recent survey that the majority of our customers actually count one or more of our branch employees as a friend, relative or acquaintance outside of their customer relationship. This is not something that many of our large competitors can replicate. Being this close to our customers gives us an advantage – we can anticipate and respond better and faster to needs and opportunities. We can fix problems and keep customers from falling through the cracks.

"Out nationalling" the locals... While we are a small town company, we have a size and scope that gives us enormous opportunity to add value for the benefit of our customers. We are now the largest retailer of insurance products in Western Canada, and one of the largest in Canada. Our buying power and influence in the insurance market provides us with a clear pricing advantage over our smaller local competitors. Our financial strength allows us to invest in training and education for our staff that ultimately yields better expert advice. Our multi product manufacturing capability allows us to package and combine more products in more ways than any other local competitor, and gives us more opportunities to get and keep customers.

These two imperatives – maintaining our local connections and our genuine small town spirit, while using our size and strength to deliver real measurable value to customers – will be what drives our success into the future. It is and will continue to be the focus of our company.

2007 Highlights

In 2007, we made significant progress toward our long term goal of becoming the strongest financial institution in the West by the year 2020. Here are my top three steps in 2007:

- **Bank West's first year of net income.** At last. After four years and eleven months of stubborn hard work and attention, Bank West is now contributing to the net income of the Group. With assets now over $300 million, and a solid core of 19 staff, our little bank will continue to grow and prosper under the leadership of its CEO, Bob Marshall. Bob and the team had a very hectic year, with the size of the business almost doubling through new business (net $54 million) and through the addition of the assets of Ubiquity Bank of Canada, which we acquired and amalgamated with Bank West in October. The Bank's profit in 2007 was a modest beginning to a new era for Bank West. During the start–up phase, we were most concerned about building up a base of business on which we could achieve financial viability. Now, as we enter the next stage, Bob and the team will focus on increasing profitability, improving systems and processes, and developing and introducing the next generation of products. In 2007, it is worthy of note that a couple of comparable Canadian Bank start–ups threw in the towel (Ubiquity and Dundee). It's clearly not as easy as some think to establish a bank. Our team should be proud of accomplishing so much in its early years.

- **With a 42 per cent increase in revenue at WFG Agency Network, our insurance retail network grew substantially.** We added 20 locations over the course of the year, while also growing same store sales at 7.7 per cent. This is an incredible achievement. Many are tempted to think of us as only an acquisition company, when in fact we have consistently achieved same store sales growth that is well ahead of our industry average. 2007 was a shining example of our ability to "walk and chew gum at the same time!"

- **The initiation of a quarterly dividend.** While nobody is going to get rich from our initial dividend, the symbolism is very important. With all aspects of our business now operating at profitable levels, we felt confident in making a decision that we know is far reaching in its implications. In the long term, we recognize that we must provide investors with returns through capital appreciation AND income. Demographics dictate that income will increase in importance over the next decade. Strong financial institutions pay a healthy and reliable dividend, and as we build toward our long term ambition, we felt we should begin to shoulder the discipline of paying dividends. In addition to providing a return to shareholders, we think it helps focus our thinking. We intend to cautiously grow the amount over time.

There were other substantial achievements in 2007: Western Life posted an amazing year in all measurable areas. Our portfolio of strategic partnerships over–delivered on their forecasts. Our revenue surpassed $100 million and net income shot into the eight figure range – amazing milestones for those of us who have been here since the start a dozen years ago. As we look at 2008 and beyond, we know there will be much work ahead, but 2007 was indeed a year of accomplishment.

2007 Review

WFG Agency Network – As mentioned above, the Network completed a very busy and ambitious growth year, one that tested the organization to the limit. Increasing revenue, people and activity so dramatically in one year is a challenge no matter what size of company, and ours is no exception. The Network front line staff delivered an exceptional level of customer service, achieving an overall customer retention rate of 89 per cent, well clear of established industry benchmarks. Same store sales figures for 2007 at the Network are nearly double that of the growth of the industry sector in Canada. Integration of new acquisitions was a steep challenge this past year, as we worked to incorporate 160 new staff and an estimated 35,000 new customers. Lana Wood and her team can be very proud of their accomplishments for 2007.

Western Life – Bruce Ratzlaff and his colleagues at Western Life posted another record year, growing revenue an astonishing 17.2 per cent to $30.01 million. That accomplishment was made to look even better by a 62.0 per cent growth in net income realized. Bruce advises that 2007 was the confluence of a number of positive events, including a dip in historical claims ratio, a drop in tax rate, and an unusually strong creditor life sales cycle brought about by heavy consumer finance activity in 2007. After two years of high rate growth, Western Life has built a substantial new base on which to continue to build in the years ahead.

Bank West – Bob Marshall and his group completed a break out year for the Bank. In addition to adding a significant amount of new business organically, the Bank completed the purchase of an excellent quality loan portfolio through the Ubiquity Bank transaction. Given the changing debt markets and the underlying economics for lenders in Canada, we believe the Bank is well positioned to continue to grow organically, and through acquisition of loan portfolios within our target market.

Strategic Partnership Portfolio – We continue to hold investments in companies that our important to the overall growth and development plans for Western Financial Group. We very much view these partnerships for the long term, and continue to work with our partners to find ways to enhance our relationship and add value. In 2007, our partnerships with Jennings Capital, Falkins Insurance, Harvard Western, and Hayhurst Elias, Dudek produced significant investment returns at levels above 2006 results in each and every case.

Financial Results – We showed significant progress on virtually every measure on the financial side, including a noticeable increase to our company's overall Return on Common Equity (ROE), which now stands at almost 10 per cent. As the Bank begins to deliver better returns against its equity, this number should continue to move upward.

2008 Priorities

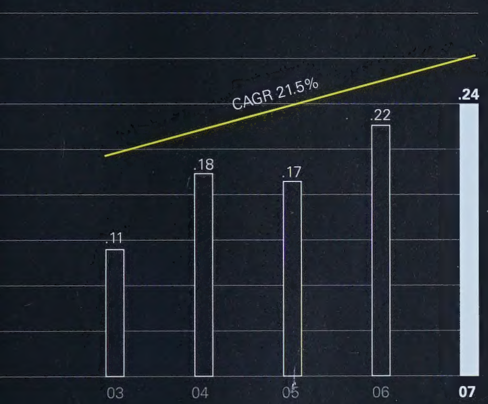
As is our custom, we have a box on this page that compares what we said we were going to do last year, to what got done. We did not get as far along on some fronts as we wanted to, so a number of 2007 priorities are continuing into our 2008 plan. We expect to be busy in 2008, both in terms of internal and acquisition growth, as well as in carrying out the work required to continue to support the company and its current scope. To that end, here our top five issues for 2008:

- Take our Brand to the next level
- Contain costs and improve profitability ratios
- Complete the last "surge" for smaller acquisitions
- Focus on partnerships and alliances
- Company wide financial reporting and control systems

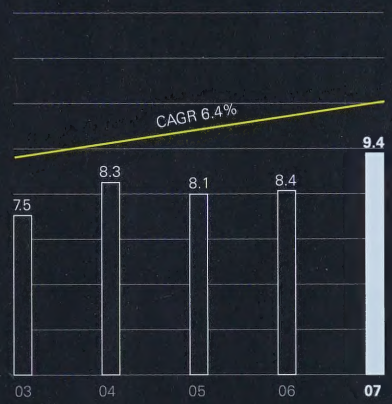
In closing, I would like to thank our employees for their continued enthusiastic support. Fully two-thirds of eligible employees are also shareholders, and that speaks volumes of our faith in the future and commitment to Western Financial.

Scott A. Tannas
President and CEO

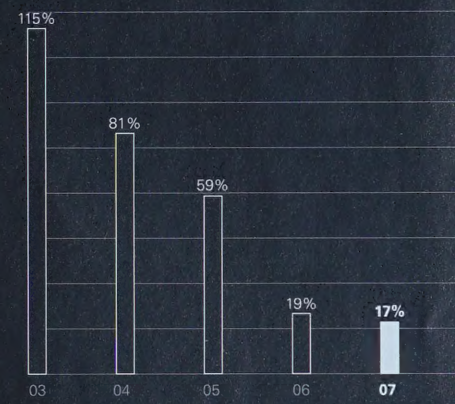
EARNINGS PER SHARE (EPS)



RETURN ON EQUITY (ROE)



DEBT TO EQUITY RATIO



KEEPING OUR WORD

2007 OBJECTIVES

Move towards our 2010 goal of 200 offices by completing between 20 to 25 acquisitions in 2007

Strengthen internal Human Resources and Communication departments

Launch company-wide reporting control systems

Take WFG brand to the next level of market awareness

Identify and address critical five-year horizon issues

2007 PERFORMANCE

We completed the acquisition of 20 new offices and added one new location.

We expanded our Human Resources department, started our Training and Development division, more clearly aligned our corporate and business unit goals, and commenced implementation of a formal internal communications policy.

We consolidated common practices and improved control and reporting procedures. These will be tested in 2008.

We consolidated advertising and commenced the development of our single brand strategy. For launch in 2009.

We initiated an internal research and development capability, which will be further developed in 2008.

Relationships

RESOURCES AND OFFICES

"The user support is provided by means of "remote control" where our IT department can log on to the user screen, and thereby "see the issue""

It's all about service. Western Financial Group and its Agency Network retail offices do not create most of the products and services we offer, so the goal lies in the level of service we deliver to customers. It is what is brought to the table as a value proposition to obtain new customers and to retain their business, and it is what differentiates the company from its competitors. The better we deliver on service, the more customers will seek us out, and the more the company will succeed.

To reach an outstanding level of service, the company must be better at delivering on local relationships and values than traditional larger, centralized businesses have done in the past. Larger companies can tap into a broad range of expertise, best practices and resources which smaller local companies often cannot do. Delivering on bringing these resources to customers through our local relationships means adding real service value. This includes offering better products, more accessibility through channels of choice for customers to these products, superior technology, and a broader product line than our local competitors.

The company has already implemented a number of strategies to better bring resources to the local level. Provided centrally through our High River location, they relate to services that can be centralized to provide increased quality and deliver cost efficiencies.

IT Resources

Our IT department is able to bring a technology solution and support structure that compares to enterprise business, but is delivered to support our local offices. While many local independent brokers will be at the mercy of external providers whose services may be harder to obtain on a timely basis and who may lack the specific skills and knowledge for the application, our IT department provides a breadth of highly skilled support staff available during all operating hours. The user support is provided by means of "remote control" where our IT department can log on to the user screen and thereby "see" the issue, along with the user, and guide them through troubleshooting steps.

All requests are logged via the Issue Track system, which assists our Help Desk staff to support over 800 users within three time zones. The structure of the Help Desk is organized with three levels of depth, enabling our users to have resolutions usually in less than two hours. If an issue is escalated to third-level support, this typically means a call to the vendor, which because of our size and relationships attracts immediate attention.

Behind the Help Desk, our IT project teams have the expertise to deploy and manage enterprise solutions such as redundant firewalls, anti-virus/spam protection, e-mail, database and file server clusters. The results are better than 99 per cent uptime for all users. The benefit is that "large company" resources are effectively delivered so that front-line staff can use technology that works at the highest levels, to the benefit of the customer. Our internal survey by agency managers rated IT at an impressive 8.7 out of 10 for overall performance.

Accounting Resources

Accounting and operational issues can chew up a lot of valuable time in independent, locally owned offices. Typically these services are provided by a third party, or by someone internally in larger local offices. In both cases the process is usually time-consuming. Post integration, these services are taken out of the office and supplied centrally, and the usual response to central ownership of these functions is "Thank you, we really didn't like doing that accounting stuff; we would rather be helping customers."

Western Financial Group provides all internal – payroll, expense reports, petty cash and client refunds – and external services – banking, utilities, insurance company cheques. Accuracy is enhanced and customer account errors are minimized. Similarly, a full auditing process is provided, which provides full accountability. No wonder newly acquired offices are excited about this functional transference!

Quick Stats

180	Help Desk average daily activities 2007
90	Help Desk average IT related 2007
69	Help Desk average procedure and process related 2007
21	Help Desk average "other" 2007
157	Help Desk average daily activities 2006

Quick Stats

23,457	Number of policies funded internally through Premium Finance 2007
121	Number of new exterior office signs provided 2007
787	Number of local newspaper ads placed 2007
15	Number of new-hire Boot Camps held in 2007
250	Number of staff put through Boot Camp in 2007
124	Average # of staff per month taking on-line courses
5,532	Total training hours 2007
Tuesday	Intranets busiest day of week
544	Average number Tuesday on-line users
7,313	Average number of monthly users

Human Resources

In many of the rapidly growing areas in which we have locations in Western Canada, the single largest challenge is hiring and keeping good employees. With few candidates available, the recruiting process can take a large chunk of time away from a manager. Our Human Resources department (HR) brings the ability to recruit and hire new staff, a function that could absorb local management time when the need arises. Channels of recruitment used are typically career fairs, newspaper, Internet and industry websites, and in most cases the successful new hire already lives in the local community in which the office is located. As HR issues become more complex, the department provides advice and direction in many personnel areas such as maternity leaves, short-term disability and dispute resolution, and decreases the risk of any potential liability through poor management practices. HR provides centralized services that bring together all the information from across our various locations, providing a database of our employees' knowledge and skills. We can quickly identify eligible candidates in specific skills and credentials for our managers, providing a better fit for the job.

HR also assists with effective documentation and assistance in annual performance reviews and competitive compensation (including our employee stock ownership program). With experiences and resources available from across a larger operation, we provide the very best information services, contributing to the growth and success of our staff.

Because many of our locations are in rural communities across Western Canada, we face many geographical, technical and economic challenges when attempting to train our employees. To overcome these challenges, the company has invested in an interactive distance learning tool that allows us to deliver real-time training and communications to all offices from Pender Island, B.C., to Thompson, Manitoba, through our Learning and Development department. Using satellite television technology (nicknamed "West TV"), we are able to transmit live training programs from a television studio built in our head office in High River out to the televisions and satellite dishes that we have installed in each of our branches. Uses for West TV will include training and development, communications, product, service and advertising launches, addresses from senior staff and meetings within the Network, Western Life and Bank West and any important opportunity to communicate information within the company.

Resources have been developed in response to front-line office requirements, taking away the need to develop expertise in each location in functions that can be consolidated, and allowing local offices to focus on customer service and sales. Our central resource is a critical step in adding value to the sales and retention proposition for

“The Communicatio
the creative and
and provides com
advertising a

customers. By bringing “large company” expertise to local customers, our local offices gain specialized professional assistance in areas they would normally find challenging. Staff can focus on their mission – to gain 100 per cent of their customers’ business in all of the financial services we offer in insurance, investments and banking.

Network Operations Resources

Customers at local independent offices may have issues with inconsistent and poor service. Through our Operations department, we mitigate this threat by providing standardized workflows, all based around an elevated standard level of service which individually each local office will try to exceed. An important part of the standard level of service for all Personal Line (home and auto) clients is CARE, an acronym for comprehensive account review and evaluation. It is part of our Guarantee of Value (see page 16). Achieving this standard level requires resources in policies and procedures, process and execution, as well as a system for review by office. Where specific offices require assistance in any part of daily operations (such as running reports, handling issues and clarification), it is provided by training, online or in person. The result is that the customer experience is elevated to an agreed-upon service standard, and value is consistently delivered.

Advertising and Communications Resources

Delivering professionally on consistent messages, branding and advertising are also areas where independent local offices may face challenges. Our Communications Department provides a resource that takes the creative and production challenges and provides complete services for advertising (TV, radio and newspaper), direct mail, brochures, display advertising in local newspapers and yellow pages, promotional items, and local office branding. Our most important centrally provided retention tool, West magazine (about which we receive the highest reviews from our customers) is produced and mailed four times a year. By supplying these resources for communicating our brand and those things we do that bring value to our customers, this central resource frees up even more valuable time for local staff to spend with their customers. Next steps include digital in-store display advertising to help communicate the availability of more quality products to our customers, an interactive web-site to allow for multi-channel communication, including quotations online, a service centre to follow up with clients at critical times when a “touchpoint” must be made. Examples would include at policy renewal, and following a loss to ensure the claim experience is favourable.

Insurance Resources

Resources are available to help local offices quote more complex accounts. Many independent locations do not have the size or the expertise to quote business insurance for complex or large risks in their area, and frequently these accounts are held by larger brokers and companies that are located in city offices. Through WFG Insurance Solutions, our local offices are able to combine the expertise of a central group of insurance professionals who have access to almost 100 specialty insurance companies and providers. Between the local connection through the community broker office and the expertise and accessibility of our resource, local offices are able to quote these accounts that would have previously been out of reach, providing their customer with the advantages of local service as well as the quality and competitive prices of a large resource.

Policy Financing Resources

To facilitate premium financing of customer policies, an internal premium finance department provides our own Bank West resources. Where customers wish to pay monthly, financing is available with rates that are often more favourable than those generally available from insurance companies and other financing companies. Our premium finance department also manages online payments, post-dated cheques, and offers the option to use credit cards for financing on larger accounts over a minimum three-payment option. All of these services, including the financing of large commercial accounts, may not have been available to an independent agency.

Relationships

OFFICES AND RESOURCES

From left to right:

Beverley Murphy, Manager,
Early Agencies, Thompson, Manitoba

Miles Wright, Manager,
Neilsen and Wolfe Agencies, Morrin, Alberta

Geordie McLennan, Manager, Northland Agencies, Fort Nelson, British Columbia

To assist local offices in building deeper customer relationships and to capture more of their business, Western Financial Group must bring meaningful resources to bear. We asked the managers of three recently acquired offices to give us their view.

Geordie McLennan grad
from Mount Royal Colle

where he

After spending time as a student placement with Royal and SunAlliance, he became a broker, working in Banff, Cranbrook and Fernie in both personal and commercial insurance. In 2004, he moved with his family to Fort Nelson and went to work for Northland Agencies.

He says that things have changed considerably for the staff, and the customer. His branch had been through four changes of ownership in the previous 25 years, so there was a sense of uncertainty with new owners. "But that has all changed," he says. "With Western Financial Group, we know that we want to be the strongest and best broker group in Western Canada. We have a clear sense of direction. And we know that our office is likely to remain strong and under the same ownership for the next 25 years. This clarity brings a sense of stability and focus to my staff and, by extension, to the customers. We also had very little previous training, particularly in management and leadership. Now my staff and I have been through Boot Camp, quarterly managers' meetings, employee conventions, and a leadership conference. We also have just about every piece of information we could use on Qwest (intranet) at our fingertips. The backup from Head office and our Regional VP has been excellent, really making us feel like we belong. This all translates into better focus and more value for the customer", he says.

We ask Geordie about any other benefits he has seen. "Well, we had this claim that I just could not get settled and it was boiling for a while. Then I found out who to phone at Head Office, and within a week we had a happy client. That's the kind of resource backup we get."

worked as both a personal and commercial insurance broker. When we were not successful in acquiring the agency he worked in, he called us. He really wanted to work for Western Financial Group. So in 2006, he moved to Drumheller, Alberta, to one of our locations, and then to Neilsen and Wolfe as manager in July 2007. "From the community standpoint, when they see a company acquired here, it often means that it will be consolidated and moved elsewhere. So local folks get nervous." he says.

"Not only was the business secured for the town, but it was also added to with a more extensive line of products and services. We have secured a service – a vital service – that could have been lost, but now it has also been made better," he says. We ask Miles about the impact this may have had on his customers, both positive and negative. "Well, I don't think there has been any negative. From a customer standpoint, we obviously have a better choice to offer them. We really only had two major insurance companies here to offer previously. Now with more companies to offer, this probably means a more competitive price. When I talk to different people, they are surprised at all the services we offer. I actually photocopied an article on our company recently, expecting all the copies to last a while. They were all gone in a week. There is a lot of interest."

We ask Miles about any recent customer issues that have come up. "We can do a lot more for the client over what we could do before. For instance, we had a good customer, an oil and gas site supervisor. We have all his personal insurance, but lost his business insurance as we were 70 per cent higher in price. Now that we have additional insurance companies, we are able to find a competitive quote, and we have it back again. He is very happy that he has a good policy and that he is able to work with us locally here in town."

She joined the insurance industry in 2001 and worked for Early Agencies in Thompson, Manitoba, which is an important gateway, serving the southeastern Canadian Arctic. "Our weakness in the community was that we really only had one insurance company to provide to our customers," says Bev. "We were at a disadvantage, and while we made up for it in service and community involvement, it was difficult to see where our future lay. We faced significant competition, and we heard about more competition down the road once the banks and other financial service providers got in the business, so there was a sense of insecurity. That has now gone, and we have a much clearer picture of our future. The branding power and the buying power that Western Financial Group brings gives us much more confidence to deal with customers' needs. We now have the opportunity to offer more diversity with GICs and life insurance," she says. "The biggest benefit to our customers is that they have much more choice in insurance companies to deal with." She is glad the days are gone when customers would come in for a quote and, after they received one, would say, "That's all, just one quote?" and go elsewhere to get more quotes for their business. She can now give them more options at a competitive price. "The customer benefits because we have more to offer. They feel they don't have to go shop around. We are becoming a one stop shop for the insurance needs of the Thompson community," she says.

CUSTOMERS AND OFFICES

Many of the resources used to provide local staff with additional time to develop relationships with customers, and more products and services to add value to these relationships, are brought together in our Guarantee of Value (GOV). The GOV is a unique set of commitments and includes a Fairness Guarantee on Claims.

In 2007, there were over 30 cases where the Fairness Guarantee was called upon.

He investigated further by opening up the suspended ceiling below in the basement. The next time his wife used the drain, several drops of water fell. It was evident that a small leak in the drainpipe had caused damage, not only to the cupboard and the wall but also to the kitchen hardwood floor as well as the fireplace below. He put in a claim, which was denied by the insurance company under the premise that the cause of the claim was not sudden and accidental, and was "due to inadequate maintenance." For this husband and wife, conscientious homeowners to the point of being fastidious, they decided to bring the claim forward to their local Western Financial Group broker. Relying on the Fairness Guarantee as a basis, he agreed that it would have been impossible for the couple to have known that there was a problem, no matter how diligent they had been. This was confirmed by two adjusters. As some insurance companies will cover for this type of event, it was felt there were grounds for payment. The claim went from the broker to the office manager and finally to the Senior Vice President. After four months and three meetings between the insurance company and our SVP, it was settled. Here is what our customer, Rick Bart, had to say:

Rick Bart, Western Financial Group Customer

Left
Michael Van Dorpe of Fiddler Agencies presents a $500 Bursary Cheque to Liz Bosse

Middle
Donna Poelzer and Dustin Sall of J.W. Baker Agencies holding the $500 Bursary Cheques for Vanessa Ward, Jewell Bougie and Jessica Ball

Right
Cathy Willis of Assiniboia Agencies presents a $5000 Infrastructure grant to Bev Monea of the Assiniboia Communities in Bloom

"When I first came to live here, I didn't know any insurance broker. I went to my local Western Financial Group office as I wanted a local contact. But I never realized the hugely important connection that being local meant until we were both bailing water together in a flood a few years ago. I should have realized that from the moment I stepped into their office, I had someone that would go shoulder to shoulder with me, from my broker to my manager to their senior staff. When we heard that our claim would not be covered, it was hugely deflating. After all these years of paying insurance, we might just as well have put our money into our own fund, and if we had somebody else as our insurance broker we would likely be holding the bag on all of this. We had an organization on our side, and they made sure we were treated fairly. To top it all off, my manager walked into my office and personally handed me the cheque."

The Fairness Guarantee is one example of how relationships between our larger central resource, the local office, our customer and the insurance company work. It is a unique customer benefit which highlights our focus of better at local than the nationals and better at national than the locals.

While no one instance stands out in the number of claims that were settled using the Fairness Guarantee process, two other quite different examples cover some interesting areas.

In one cas [illegible] Cullimore [illegible] an apartmen [illegible] that the condominium could be sold. She had called our office to advise that she was moving and give us a temporary address, but had not told us she was storing her contents. She then had a loss in the storage unit, and put in a claim. Unfortunately, she had exceeded the 30-day notice period to advise that her possessions were now in temporary storage, but in the interim her adjuster had indicated she would get a cash settlement for her loss. When the insurance company decided to decline the claim, her broker, Linda Mohns at our office in Vermilion, Alberta, called on the Fairness Guarantee. The process went from her broker, to her manager, to our Senior Vice President, where it was settled. "Our customer was very happy. It was done, and I could again sleep at night," says Linda.

"I have dealt with Linda since I was 16 and needed insurance" says Kayla. "She knows all about my requirements and I have counted on her to be right beside me when I need her, which is very important because I have travelled a lot. When this happened, to come back and find some of my possessions missing and apparently not insured was devastating. I shouldn't have worried. Linda was there to fight for me. She always treats me as a good customer."

The Fairness Guarantee also extends to business accounts.

[illegible]

when it was noticed that two years prior, the insurance company had placed a completed operations exclusion on the policy without advising the client, or our office. The claim was denied by the insurer and the file closed. Relying of our Fairness Guarantee, the broker, Vic Ross, decided that the insurer added the exclusion for no reason, and that by not informing either party, the denial of coverage was unfair. During the course of his work on the file, he found enough issues that when it was passed up the line according to our Fairness Guarantee, the Senior Vice President was able to make a solid case to the insurance company. Vic was able soon after to advise his client that the file had been reopened. "We take the Fairness Guarantee that we provide to clients very seriously. Not only does the client receive a promise of service that we stand behind, but it gives me a procedure I can use to help the client get a fair resolution to their claim," he says.

In keeping with our theme this year – being a large company that is connected to the local community level – one of our greatest assets is our Western Communities Foundation. The foundation has been created as a non-profit charity to support worthy local causes at several different levels. For instance the support of local heroes and in donations to worthy causes that affect each community, such as the Canadian Fallen Heroes Foundation. A current example can be seen in the automated external defibrillators (AEDs) supplied to community recreational complexes and schools, which, at a cost of over $4,000 each plus a maintenance contract, would usually be too much for a local office to budget. In 2007, the Foundation awarded 16 AEDs to 16 communities in Western Canada. Another example is the $5,000 infrastructure grants, used to provide assistance for local buildings and developments in the community. We also awarded 42 bursaries for $500 each in 39 western communities for further education for exceptional high school students. On another level, the Foundation provides a dollar for every dollar raised by one of our local offices for local charities. While Western Financial Group is the single largest supporter of the Foundation, our insurance company partners and staff have been very generous in their time and financial support.

Western Financial Group Agency Network

PROPERTY AND CASUALTY INSURANCE

We operate a growing retail network of community property and casualty insurance offices in all four western provinces. This year, including our affiliated offices, we provided auto, home, farm, and business insurance to residents of 86 communities through 99 local offices. In most locations we also offer life insurance products, travel insurance, some investment services through Jennings Capital, and we offer deposit and loan services such as the purchase of GICs, as well as personal and commercial mortgages and loans.

Lana Wood, President, WFG Agency Network

If it is true that rewards are in direct proportion to contribution and effort, then 2007 will position us for success in the next few years. We focused our goals for the year primarily on operational initiatives, which will raise our service and performance levels to higher overall customer service standards. This required us to focus on several areas:

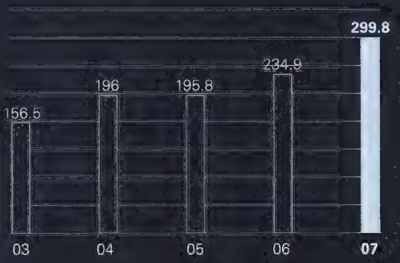
Operations

One of the biggest challenges with our growth is that the largest segment – acquisitions – brings new offices to our network that often function under different systems, technology and management styles from ours. Integration into our policies and procedures and ongoing compliance requires us to implement initial reviews in each office. Our operations team has worked very hard to set standards and implement procedures, which has significantly improved our ability to integrate and manage new, as well as current, offices in the course of 2007. These processes are a stepping stone to taking our expanding Network to the next level of technology in the future. We continue to work on our claims process, an initiative that will continue into 2008, and our Fairness Guarantee on claims, a critical part of our value proposition, is being built into the process and workflow procedures, along with the necessary education and training.

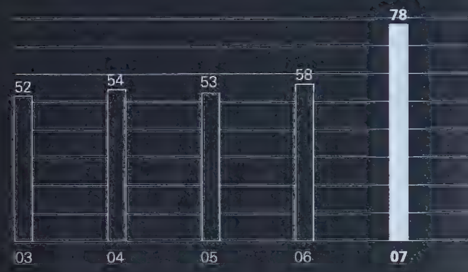
Related to operational goals is consistent branding of the Western Financial Group name and promise. Our growth process through acquisition brings many new local brands to our network, all of which must be changed to one Western Financial Group brand, while preserving local goodwill. Consistent brand application was integrated into our more centralized approach in 2007 in advertising and marketing, brochure racks and consistent brochures, and common local marketing initiatives. We completed the centralization of advertising (TV, radio, newspaper and some direct-marketed programs) through our corporate Communications department so that brand image and message is consistent.

NETWORK REVENUES

NETWORK PREMIUM SALES



NETWORK GROWTH BY OFFICE

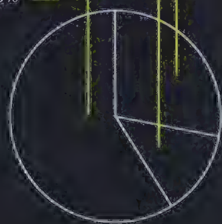


INSURANCE SALES BY PROVINCE (SMILLIONS)

Alberta	210.9	70.3%
BC	59.5	19.9%
Manitoba	5.7	1.9%
Saskatchewan	23.7	7.9%

COMMERCIAL INSURANCE SALES (SMILLIONS)

Automobile	44.4	28.2%
Farm	20.3	12.9%
Commercial property/liability & other	92.7	58.9%



PERSONAL INSURANCE SALES (SMILLIONS)

Automobile	75.5	53.1%
Home/other	66.9	46.9%

Quick Stats

	Network Customers December 31, 2007 (approx.)	Total Network full-time staff	Number of owned offices	Number of affiliated offices	Growth in same store customer count	Growth in same store revenue	Growth in total premiums	Retention	Products per customer account
2007	250,000	704	78	21	4.3%	7.7%	28%	89%	2.30
2006									

At the core of our value proposition to our customers is our Guarantee of Value, a unique set of service levels that our customers can expect to receive when they buy their insurance from one of our offices. To be effective, it must be consistently delivered, which required training on a number of levels including Boot Camp for all new employees and inclusion of CARE in our procedures review (comprehensive account review and evaluation – an annual check on personal insurance coverage and review on premium every three years). In keeping with consistent branding, we also set goals to grow Western Life Assurance's share of all new business types by 90 per cent in all cases where they could provide us product. We are working with them to identify products that could be developed in the future. We saw significant growth with Western Life in our "bolt-on" product to our commercial policies, which we named the WFG Owners Endorsement or WFGOE. This product added a critical illness component to a commercial policy to cover eligible owners and partners at the business under normal parameters for a nominal additional premium on the policy. We saw our WFGOE business double between March 2007 and December 2007 to 4,367 policies in force.

Overall Financial Objectives

Our goals for 2007 in growth and policy increases were aggressive, given the soft market in commercial insurance. We obtained buy in from all branches into the business and budget goals, particularly in such areas as new business, retention and total revenues. They were reviewed quarterly with the Regional Senior Vice Presidents. Part of our strategy for growth included programs through WFG Insurance Solutions (IS), our in-house specialty insurance company provider and marketing department. IS holds a number of key contracts with specialty insurers, including Lloyds of London contracts, and provides their expertise as well as access, as a resource to our branch locations. While IS showed a significant overall growth (34.0 per cent from $9.4M to $12.6M), we had reasonable success in program business ranging from risks with high liquor receipts, to day care programs to church programs and First Nations programs. We also made progress towards completion of our risk-management component through our Farm Safe Program, a specialized product based on hog farm industry. Overall in 2007, we have achieved success by doggedly pursuing our goals through perseverance, which resulted in us exceeding our commission income by $484,000 or 1.0 per cent of total commission income, increasing policy count by 18.3% from 177,676 to 210,246 policies in effect without including new acquisitions or recent acquisitions (transitional offices), and increasing same store sales by 7.7 per cent in a soft market.

Several key employee objectives were completed including a performance management strategy and a complete employee compensation review in conjunction with our Human Resources department, which will be instrumental in furthering our overall employee recruitment and retention levels in the future. Further work on a compensation structure includes a benefits review, staff retention, and workplace job satisfaction survey, which will be completed in 2008.

Dedication and hard work in 2007 by our staff of 704 network employees, both local and in our central office, made us successful in accomplishing our goals, one of which continues into 2008. We instituted significant changes so that we can grow in the future, and though we have to complete the process, the major portion is behind us.

Great Customer Ideas

In 2004 the company instituted a $1,000 life benefit for any customer who held a habitational policy with Western Financial Group – at no cost to the customer. It was designed to provide some minimal coverage for such things as funeral expenses. There were some restrictions on age, but otherwise it was very inclusive. In 2006 we changed the underwriting company to our own Western Life, and broadened the coverage to include spouses as well as the person named on the policy. There was still at no cost to the customer.

$89,000

In 2007 we paid out $89,000, or $1,000 to 89 customers whose spouses had died. It helped many families in a tough time. There were 54 residents of Alberta, five of whom were over 80 years old, 21 residents of British Columbia, four from Manitoba, nine from Saskatchewan and one from the Yukon. The majority of the recipients had no idea they even had the coverage. But an idea that our customers would benefit from this led us to put it into effect, and it has proven to be something tangible that demonstrates our proactive attitude towards customer care.

Relationships

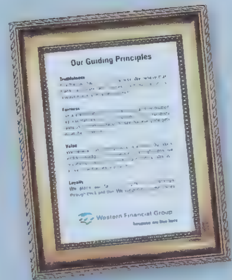
CUSTOMER SERVICE

There are two additional and very important services we offer in some of our communities – these are registry and auto licensing services and travel services.

In our British Columbia, Saskatchewan and Manitoba locations, local offices can issue provincial vehicle licences and driver's licence renewals along with government auto insurance policies. In Alberta, some locations act as a provincial Alberta Registries provider. As more than 60 of our staff are primarily focused on this service, it also forms a local relationship between our company and our customers, a necessary and important local service in many locations, particularly smaller towns where our office may be the only provider in town. Overall, related income from vehicle licensing and registries services in all four provinces represents almost 36 per cent of our commission income.

Although we do not extend our GOV (Guarantee of Value) to this service, as the "product" is from a single provider, we strive to provide the same quality, professionalism and care as we do in our other insurance products and services.

We also have one other "broker" service that adds to our community involvement and is used to further our customer relationship. Our group of almost 30 experienced travel agents further enhance the local customer relations in five of our communities where we have Marlin Travel locations. Offering a similar service as an "expert advisor" as our larger local insurance office network, our professional, knowledgeable Marlin Travel agents bringing a wide selection of competitively priced vacations to local residents. Office locations are in southern Alberta in Strathmore, High River, Drumheller, Brooks and Okotoks.



Customer service and relationships between staff in the company are guided by two key and important propositions – our Guiding Principles and our Guarantee of Value. Between these two propositions rests our competitive differentiation. Our Guiding Principles outline the way staff treat their customers, how staff treat each other, and how the company treats both. Based on western community values, there are four requirements. Truthfulness, Fairness, Value and Loyalty. From the initial Boot Camp training that each employee receives, to the wall frame mounted in each of our location's lobbies, to monthly employee staff meetings and discussions at employee conventions and manager meetings, our Guiding Principles are discussed as to their importance and use in daily conduct and operations.

Our second proposition, which is focused on our customer relationship and the value proposition, is our Guarantee of Value. The guarantee is slightly different for each business unit as they offer different services. For our Agency Network division we promise that to every insurance policy we will bring:

- A competitive price through the widest choice of insurance products in the area
- A regularly scheduled review of the insurance policy
- A Fairness Guarantee on claims settlements
- Smart, well-trained local staff who care

Assurance Company

2007 REPORT

Bruce Ratzlaff, President, Western Life Assurance

Western Life Assurance Company is an organization with 40+ years of history selling financial protection products across Canada. Our historic distribution strategy indicates that we effectively "partner" with others who have a customer relationship in place and are engaged in a purchase transaction with the customer. It's within that context that the supporting protection products of Western Life come alongside to complement the transaction in a way that is beneficial to the customer, adds scope to the relationship – and financial protection, should it be needed. A recent example is an insurance claim we paid to a customer who was introduced to us in this context and with whom we've had a customer relationship since 1967, something we're proud of and expect to continue. Through our "partnering" strategy, Western Life has enjoyed a long history of profitable operations, growth, and customer service quality that yields financial rewards for the organization today. Our history and current year results strongly reflect this tradition.

A few years back, we set our sights on taking some quantum growth steps that we're now experiencing. 2007 marks the second consecutive year that we've grown our Total Premiums in excess of 25 per cent. With Total Premiums approaching $42 million, we are well-positioned to continue our growth pattern as well as to reap the benefits of scale economies in our other important financial metrics. While growth at Western Life is not through acquisition in the traditional sense, it is rooted in acquiring new distribution partners as our core strategy. These distribution partners are introducing Western Life to their clients consistently and fruitfully, and this market orientation will not change as we embrace the future.

The growth we experienced this year in our Net Income and ROE is most gratifying. While anticipating high growth challenges in our operations domain, we set out to financially manage our growth by targeting lines that don't demand a high capital commitment. We have therefore been able to develop the "right" type of business for our size of company, which has allowed us to strengthen our Balance Sheet and increase Net Income parallel to increasing business volumes. Our ROE performance for 2007 is 16 per cent, a result we're proud of and pleased to report. Our Balance Sheet has never been stronger, and alongside of our distribution relationships and their current volumes, we are in great financial shape to support our drive for more.

While we are focused on some strategic product refresh strategies for the coming year, it is not through "product" development per se that our company will advance. Our product line is very robust, spanning a full suite of Individual Life, Disability and Critical Illness products, Group Health for small employer groups, A&S products designed for niche contexts and many variations of Creditor Insurance products. Our individual life products are supported by our industry-leading technology process (www.@pprove.ca), which in turn continues to support our mission as an innovator in sales processes and product design.

On reflection of the whole picture for Western Life in 2007, we see that we have been rewarded for past decisions and practices in realizing the growth in our business and the financial yield from our operations. We gladly recognize the significance of our employee team with their 14+ years of average tenure, who apply their skills and focus in a way that is meaningful to our customers. Our purpose is to design and deploy financial protection products for the benefit of our customers, while protecting and growing the assets of Western Life for the long-term benefit of our shareholders, customers and employees alike.

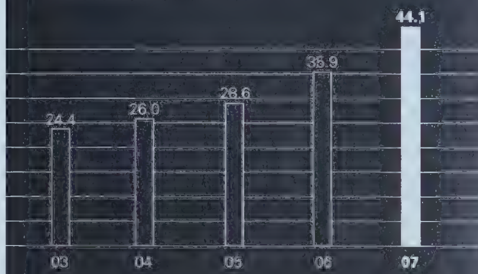
PRODUCTS (NET PREMIUM, $MILLION)

Group A&S	18.28	64.7%
Ind. Life	5.33	18.9%
Group Life	3.53	12.5%
Ind. A&S	1.10	3.9%
	28.24	100.0%

DISTRIBUTION (NET PREMIUM, $MILLION)

BC	3.71	13.1%
Ontario	10.70	37.9%
Alberta	8.06	28.5%
Sask	2.10	7.4%
Other	2.02	7.2%
Manitoba	1.65	5.8%
	28.24	100.0%

GROSS REVENUES ($ MILLIONS)



Quick Stats

2007						
	2,372,310,000	572	138,491	130	222	98
	Individual life insurance in force	New @pprove life policies sold by Network	Group health and dental claims processed	Life insurance claims processed	Disability insurance claims processed	Critical illness claims processed

2007 REPORT

Bank West was organized in 2002 with the mandate to become a Schedule 1 chartered bank focused on complementing the relationship with Western Financial Group's customers. When Bank West opened for business on January 30, 2003, it offered limited deposit services (non-registered GIC investments) and credit for residential, commercial and agricultural mortgages, as well as premium financing for Western Financial Group's personal and commercial insurance clients.

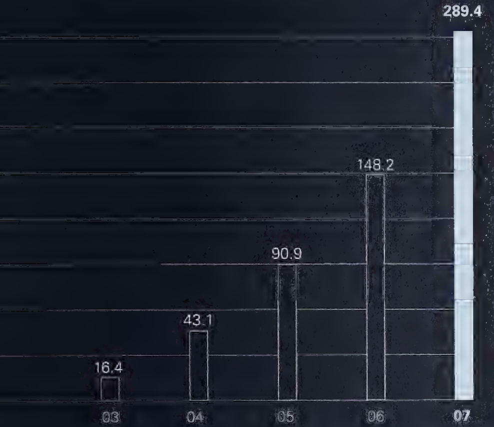
During our first two years, Bank West established relationships with a number of automotive, recreation vehicle and marine dealerships to originate dealer financing. As well, the range of credit products was expanded to include consumer loans, commercial financing (loans and leases) and mortgages for fractional recreational properties.

Although the initial intent was to promote GIC investments for Western Financial Group's Agency Network customers, Bank West has also formed strategic alliances with a number of independent investment brokers to assist with the procurement of customer deposits. In 2007, the investment offerings were expanded to include registered plans (RSPs and RIFs).

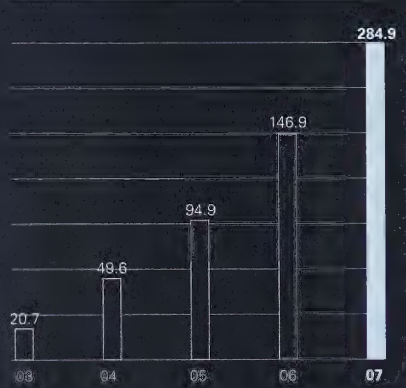
In early 2007, it was recognized that an opportunity was available to purchase Ubiquity Bank of Canada – a "virtual" Canadian chartered bank established in 2003 by a credit union in British Columbia. After completing the necessary due diligence and realizing that the acquisition

Bob Marshall, President,
Bank West

LOAN PORTFOLIO (MILLIONS)



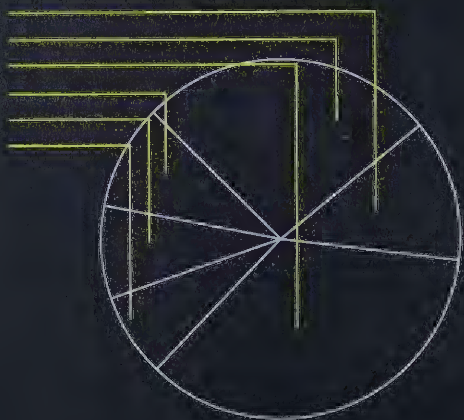
DEPOSIT PORTFOLIO (MILLIONS)



NET INTEREST INCOME (BEFORE PROVISIONS) $M

DISTRIBUTION OF LOANS (DECEMBER 31, 2007)

Residential Mortgages	$77.3	26.8%
Farm & Commercial Mortgages	$36.8	12.7%
Dealer Finance	$102.8	35.5%
Personal & Other Loans	$29.9	10.3%
Commercial Loans & Leases	$20.9	7.2%
Premium Finance	$21.7	7.5%



"...pment of solid strategic ... implementation of a new ... in 2008, Bank West will ... products for all customers."

would result in economic benefits, a decision was made by the boards of Bank West and Western Financial Group to tender a competitive offer to purchase Ubiquity Bank and amalgamate the assets and liabilities with Bank West. This offer was subsequently accepted, and on June 27, 2007, Bank West and Western Financial Group submitted an application to the Office of the Superintendent of Financial Institutions. This proposed purchase and amalgamation received approval from the Minister of Finance for the Government of Canada, on September 26, 2007. The purchase and amalgamation were completed on October 1, 2007 which resulted in combined assets of approximately $330 million.

Post-amalgamation, Bank West provides services to approximately 20,000 customers. With the development of solid strategic alliances and the implementation of a new banking system in 2008, Bank West will again expand the range of products for all customers by introducing chequing accounts, savings accounts, debit & credit card programs and lines of credit.

Bank West is not a traditional bank as we do not have a retail branch. However, in addition to offering a more complete line of financial products in 2008, Bank West will also be expanding our delivery channels so that all of our customers can access their accounts through online banking, telephone banking, automated banking machines and point of sale terminals.

2007 Loan Growth

Total loans and mortgages showed a substantial overall increase of 92.0 per cent, or $138.2 million in 2007. Bank West's dealership finance operations continued to experience significant organic loan growth and realized an increase of 52 per cent or $34.7 million. Premium financing activities grew by 29 per cent, a $4.9 million increase. Including the purchase of the Ubiquity Bank portfolios, Bank West's residential mortgages increased by 133 per cent or $44.0 million, commercial mortgages grew 371 per cent or $28.7 million, and commercial loans and leases increased by 153 per cent or $12.5 million. As a result of ongoing business developments and the acquisition of the Ubiquity book of business, Bank West continued to maintain a well-diversified lending portfolio.

Credit Quality

At the end of 2007, loans delinquent in excess of 90 days (gross impaired loans) represented only 0.45% of our total loans. In exercising conservative lending practices, Bank West set aside an additional $793,000 for specific loan loss provisions in 2007. On December 31, 2007, our allowance for credit losses totaled $2.0 million, which represents only 0.67 per cent of the total loan portfolio. This total allowance consisted of $419,000 in specific provisions and almost $1.5 million of general provisions.

Net Interest Income

Net interest income grew from $3.0 million in 2006 to $4.6 million in 2007 – an increase of 54 per cent, which is primarily attributed to the increase in loan volumes. The net interest margin (net interest income as a percentage of total average assets) of 1.8 per cent showed a modest reduction compared to 2006.

Net Earnings

Continued growth in 2007 loan volumes, combined with prudent management of general and administrative expenses, produced an increase in operating income. In 2007, Bank West recorded operating income of $1.1 million compared to $218,000 in 2006.

Quick Stats

	Number of full time employees	Growth in total revenues	Total non-interest expense growth	Loan portfolio growth	Net interest income growth (before provisions)	Gross impaired loans (% of total loans)
2007	19	68%	6%	92.0%	54.9%	0.45%
					[illegible]	0.52%

Relationships

EQUITY INVESTMENTS

Western Financial Group acts as an equity investment partner when there are opportunities to acquire successful insurance brokerages, build profitable relationships in similar businesses, or look for assets that may enhance operations in the future. Currently we have four equity partners:

Jennings Capital

Based in Calgary, and with offices in Toronto and Vancouver, JCI has been successful as an investment dealer – initially servicing the oil and gas industry in Alberta, but with a wider scope as its Toronto and Vancouver offices expand. The Vancouver office strengthened its retail and corporate finance departments. The Toronto office experienced significant growth in 2007 particularly in mining and retail. In Calgary, the company experienced another good year in corporate finance, supported by two analysts and an associate analyst, and in their retail sales division. JCI's strategy is to focus on natural resources (alternative energy, oil and gas, forestry and mining), technology including biotechnology and special situations.

Cooks ISI Insurance

In 2005, we formed Harvard Western Ventures, a company jointly owned 50 per cent by Western Financial Group and 50 per cent by Harvard Developments. The new company brought together two well-known brands, ISI Agencies and Cooks McCallum Hill Insurance, to form a major new insurance broker in Regina.

Cooks ISI Insurance offers a broad range of auto, home, business and specialty insurance products from three locations in Regina and one in Kronau, Saskatchewan.

Falkins Insurance

Falkins Insurance was originally established in 1897 in the gold rush town of Fort Steele, B.C. It moved in the early 1900s to Cranbrook, where it has grown to be the largest general insurance brokerage in the Kootenays. It owns and operates 10 locations in southeastern BC – two in Cranbrook including its head office, Fruitvale, Salmo, Kaslo, Fernie, Sparwood, Elkford, Kimberley and Golden.

2007 was another successful year. With a strong economy in the region and continuing success with product lines and their initiatives on operational efficiencies, Falkins again increased market share.

HED

In October 2006, we acquired a 25 per cent interest in Hayhurst Elias Dudek, the largest independent insurance broker/administrator in Manitoba. HED was formed in 1982, in a merger of successful brokers specializing in association group insurance programs. Today, with 218 employees nationwide, HED is one of the largest independently owned insurance brokers in Canada. HED provides flexible and innovative insurance solutions through risk management and alternative risk transfer solutions such as managed, insurer protected self-insurance programs for larger buying groups and associations. It operates three core product segments – commercial property and casualty, life and health products, and pet health insurance through its own subsidiary insurance company, SecuriCan General Insurance Company. It is the leading provider of one of the fastest growing insurance products and services in Canada – pet insurance – sold under the Petsecure brand. In 2007, all lines of business showed strong increases, and HED was again ranked in the top 10 employers in Manitoba.

Jennings Capital Inc.

Cooks ISI Insurance
A HARVARD WESTERN FINANCIAL VENTURE

HED Hayhurst Elias Dudek Inc.
INSURANCE AND RISK SERVICES

FALKINS INSURANCE GROUP

Quick Stats

	Jennings Capital	HED and Securican	Falkins Insurance	Cooks/ISI
Head Office	Calgary	Winnipeg	Cranbrook	Regina
# Offices	3	6	10	4
# Employees	88	218	74	28
Years in Business	15	25	111	100
Annual Premium	-	113M	20M	15M

Catherine Rogers,
Chief Financial Officer

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our audited consolidated financial statements and related notes as at and for the years ended December 31, 2007 and 2006.

This management's discussion and analysis is dated March 18, 2008 and provides comments regarding our objectives, strategies, financial results, risk management and business outlook. Forward-looking statements involve numerous assumptions, risks and uncertainties, including the risk that prediction and other forward-looking statements may not prove to be accurate. We caution the reader not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from the estimates and comments expressed in them. Such factors may include, but are not limited to: changing financial and economic conditions in Canada, particularly in Western Canada; regulatory developments; competition industry trends and availability of capital resources; and our anticipated success in managing our risks. We caution readers that the foregoing list is not exhaustive. Except as required by law, we do not undertake to update any forward-looking statements, written or oral, that we may make from time to time regarding our operations and performance.

The financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). We use the term "operating income" to refer to earnings, including investment income, before interest expense, income from long-term investments, taxes, depreciation and amortization of intangible and capital assets, excluding gain (loss) from the sale of long-term assets and income from long-term investments. Although operating income and operating margin, each of which are discussed herein, do not have standardized meanings prescribed by GAAP, these measures are determined by reference to our financial statements. We discuss these measures as we feel that they are some of the key indicators of the performance of our business. Operating income is used to measure corporate performance before the costs of capital and amortization of capital and intangible assets. As we continue to make acquisitions, our amortization of intangibles will continue to increase along with interest costs on funds borrowed to finance the acquisitions. In order to evaluate our longer-term sustainable performance, our management believes that operating income provides a relevant measure of our actual performance.

Business of Western Financial Group

We are a leader in providing insurance, financial services and banking services to more than 400,000 individuals and businesses in Western Canada through our WFG Agency Network (the "Network"), affiliated insurance brokers, Western Life Assurance Company ("Western Life") and Bank West.

Our primary business is the ownership and operation of WFG Agency Network, which serves over 80 communities with offices in British Columbia, Alberta, Saskatchewan and Manitoba. In addition, we have affiliated offices in 12 communities with 15 offices in British Columbia and Saskatchewan. These locations offer a broad variety of property and casualty insurance services including private auto insurance and government auto in British Columbia, Saskatchewan and Manitoba, home and farm insurance, business and specialty insurance, life products and in many locations, investment and financial services.

In addition, Western Life Assurance Company was acquired effective February 28, 2005, and brings a wide range of quality life insurance products to the WFG Agency Network offices. These include term and permanent life insurance, group benefits, health and disability insurance and loss of employment insurance. Western Life also has a network of over 2,000 brokers who sell its products. Since being acquired Western Life and the Network have worked closely in developing strategies to successfully integrate their product lines with our clients through the Network.

Bank West ("the Bank"), a Schedule A chartered bank, offers deposit and loan services, including GICs and personal and commercial loans which are offered through its own broker network as well as through WFG Agency Network locations. The Bank has been successful in developing a growing business in recreational vehicles, marine and auto dealership financing and in offering mortgage products.

Investment products are offered from many of the WFG Agency Network locations on a referral basis to Jennings Capital, a full-service investment dealer with its head office in Calgary, Alberta, in which we have a 27.5% equity interest.

Acquisitions and investments

In May 2007, we entered into an agreement with Prospera Credit Union pursuant to which we agreed to acquire all of the issued and outstanding shares of Ubiquity Bank of Canada. Ubiquity Bank is a Canadian online virtual bank that offers access to account or banking information 24 hours a day delivering financial services through non-traditional forms of banking including phone, internet, ATM, and fax. Ubiquity was founded in April 2004 and is based in Abbotsford, British Columbia. On October 1, 2007 the acquisition was completed and Bank West and Ubiquity Bank were amalgamated with the operations of the two banks consolidated under the Bank West brand.

During 2007 the Company acquired all of the outstanding shares of the following insurance brokerage businesses: the Sawchuk Group with three offices in Dawson Creek, B.C., four offices in Fort St. John, B.C., and one office in Fort Nelson, B.C. The Sawchuk Group consists of Pomeroy Insurance Services Ltd., J.W. Baker Insurance Agencies Inc., Northland Insurance Services Ltd., and Geer and Spice Insurance Agencies Ltd. Additional acquisitions in British Columbia (B.C.) include Sawchuk Financial Services Inc., in Dawson Creek, B.C., McDonald Bychkowski and Holland Ltd. and 411248 B.C. Ltd., in Vernon, B.C., and Blonde and Blonde Ltd., in Kelowna, B.C. The Company acquired Nielsen and Wolfe Agencies Ltd. in Morin, Alberta, 601369 Alberta Ltd. in Lac La Biche, Alberta, 601369 Alberta Ltd., Younger and Holmes Limited, 999416 Alberta Ltd., 999400 Alberta Ltd., and Fimac Insurance Ltd. in Peace River, Alberta, Oncescu Agencies Ltd. in Assiniboia, Saskatchewan and Early Insurance Ltd. in Thompson, Manitoba. The Company also acquired the remaining 75% outstanding shares of Northcountry Insurance Agencies Ltd. serving seven communities in B.C., certain assets of Butler Byers Insurance Ltd., and the outstanding shares of Ubiquity Bank of Canada.

During 2006, the Company purchased 25% of Northcountry Insurance Agencies Ltd. which serves seven communities in British Columbia and purchased all of the outstanding shares of: Golden Eagle Agencies Ltd. in Vegreville, Alberta, 606065 Alberta Ltd. in Leduc, Alberta, 1176496 Alberta Ltd., and 1194595 Alberta Ltd. in Spruce Grove, Alberta, Willow Creek Insurance (1990) Ltd. in Claresholm, Alberta, and Thomsen Fisher Insurance Ltd. in Medicine Hat, Alberta.

In August 2006, we acquired a 25% initial interest in Hayhurst Elias Dudek Inc. ("HED"), the largest independent insurance broker/administrator in Manitoba. HED is one of the largest independently-owned insurance brokers in Canada, with approximately 190 employees nationwide. HED's head office and the majority of the employees are located in Winnipeg, with additional offices in Toronto, Montreal and Halifax. HED offers three core product segments: i) Commercial Property &

Casualty; ii) Life and Health; and iii) Pet Health Insurance through its subsidiary SecuriCan General Insurance Company, the leading provider of pet insurance in Canada, sold under the Petplan brand (renamed "Petsecure" in March 2008).

Key business drivers

Our management has identified certain key business drivers to assist it in managing and evaluating the progress of our business, especially the largest component of our business, the Network. These drivers consist of both financial and operational indicators. For the Network we track same-store revenue change, from one period to the next. As we continue to add branch offices to the Network through acquisitions it is important for us to track the revenues of the Network's existing branch offices. As we continue to add new products through the sale of P&C insurance and the addition of financial service products through the Network, we expect the average number of products we sell to existing customers to increase. To analyze this, we track the products per customer account (PPCA). We also track the Network's year-to-date annualized percentage change in same-store customer account increase. With Western Life we track the increase in the policy and certificate count, and with Bank West we are focused on the growth of our loan book. Corporately we are looking at our return on equity and the increase we are able to achieve over the next few years. The table below shows our key business drivers.

YEARS ENDED DECEMBER 31	**2007**	2006	2005	2004	2003
Same-store Revenue (% change) (1)	**+7.7%**	+6.9%	+6.8%	+6.6%	+13.8%
Products per customer account (PPCA) (2)	**2.30**	2.29	1.77	1.67	1.51
Same-store Customer Account (year-to-date annualized, % change) (3)	**+4.3%**	+4.5%	+2.8%	+4.0%	+4.0%
Western Life Policy/Certificate Count (4)	**25,374**	22,064	19,180	-	-
Bank West Loan Book ($ millions)	**$286.8**	$149.4	$91.5	$43.4	$16.4
Return on Common Equity (ROE)	**9.4%**	8.4%	8.1%	8.3%	7.5%

Notes:

(1) Represents same-store revenue increase for the twelve months ended on the date indicated over the corresponding period in the prior year.

(2) The average number of products per customer account increased significantly in 2005, 2006 and 2007 as a result of additional products sold to our existing customers, which we only started tracking in 2004.

(3) Represents year over year annualized increase.

(4) Western Life was acquired on February 28, 2005.

Three Year Summary

(In $ thousands except for per share amounts)	**2007**	2006	2005
Total revenues	**114,126**	82,643	66,641
Net income	**12,213**	7,988	4,849
Earnings per share-Basic ($)	**0.24**	0.22	0.17
Earnings per share-Fully diluted ($)	**0.22**	0.20	0.15
Total assets	**622,701**	384,922	279,699
Total long-term liabilities	**240,850**	125,237	100,584
Total cash dividends paid	**2,074**	519	12

Segmented Data

Our financial results are divided into four reportable segments: insurance brokerage, banking services, life insurance and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through WFG Agency Network. The banking segment commenced operations in January 2003 and provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through Bank West. The life segment offers a range of disability products along with group life and health, and loss of employment insurance through WFG Agency Network and other distribution channels.

YEARS ENDED DECEMBER 31		2007		2006
(IN $THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)				
The Network				
Commissions and other customer revenue	$	**66,408**	$	46,674
Operating expenses		**46,613**		32,366
Operating income (1)	$	**19,795**	$	14,308
Bank West				
Interest and investment income	$	**13,805**	$	8,214
Interest expense-customer deposits		**9,209**		5,223
Net interest and investment income		**4,596**		2,991
Provisions for credit losses		**793**		755
Operating expenses		**2,713**		2,018
Operating income (1)	$	**1,090**	$	218
Western Life				
Premium and investment income	$	**30,096**	$	25,686
Policyholder benefits		**13,934**		13,595
Operating expenses		**12,102**		9,510
Operating income(1)	$	**4,060**	$	2,581
Corporate and all other				
Other revenues	$	**3,817**	$	2,069
Operating expenses		**9,130**		7,526
Operating (loss) (1)	$	**(5,313)**	$	(5,457)
Total operating income (1)	$	**19,632**	$	11,650

Notes:

(1) We use "operating income" to refer to earnings, before interest expense, income from long-term investments, taxes, depreciation and amortization of intangible and capital assets. Operating income (loss) is a non-GAAP measure we use to measure our corporate performance before the costs of capital and amortization of capital and intangible assets. This measure may not be comparable to similar measures presented by other issuers and investors are cautioned that it should not be used as an alternative to "net income" or other measures of financial performance calculated in accordance with GAAP.

Results of Operations

Year Ended December 31, 2007 compared to the Year Ended December 31, 2006

Revenue (in $ thousands)		**2007**		**2006**
The Network	$	66,408	$	46,674
Bank West		13,805		8,214
Western Life		30,096		25,686
Corporate and all other		3,817		2,069
	$	114,126	$	82,643

Total revenue increased by $31.5 million, or 38.1%, to $114.1 million compared to $82.6 million in 2006. This was primarily a result of the acquisitions at The Network, an increase of 19.7% in net premium income at Western Life contributing $27.3 million to our revenue, and the increase in our Bank West loan portfolio to $286.8 million at December 31, 2007 compared to $149.4 million at December 31, 2006, which increased gross interest and investment income at the Bank by $5.6 million.

The Network's revenue increased by $19.7 million to $66.4 million in 2007 compared to $46.7 million in 2006. This was primarily due to new acquisitions in 2007 contributing $13.1 million along with annualized revenue from acquisitions completed through 2006 of $2.4 million as well as growth in same-store revenue of 7.7%, representing an additional contribution of approximately $3.1 million. In addition we saw a slight decrease in contingent profit but an increase of $1.0 million in our government auto revenue.

Bank West's gross interest revenue and investment income increased by $5.6 million to $13.8 million in 2007 compared to $8.2 million in 2006. Bank West had an increase in premium financing interest of $253,000 from the monthly financing of insurance policies for the Network, an increase in mortgages and personal loan interest of $5.0 million and an increase in investment and leasing interest of $847,000. Customer deposits increased by $138.0 million to $284.9 million in 2007 from $146.9 million as at December 31, 2006 which drove interest and commission expense higher by $4.1 million. As a result, Bank West's net interest and other revenue after provisions for

loan losses increased by $1.6 million to $3.8 million in 2007 compared to $2.2 million in 2006. Mortgages and other loans before provisions for loan losses increased 92.0% to $286.8 million with $48.2 million from internal growth and approximately $90.0 million from the acquisition of Ubiquity Bank in the fourth quarter of 2007.

Western Life contributed $30.1 million in total revenue with $27.3 million in net premium revenue as compared to $22.8 million in 2006 and $2.7 million in investment income compared to $2.8 million in 2006. Specific product offerings covering creditor and group lines led the positive growth in net premiums Additionally, direct sales from the Network of $2.5 million compared to $1.3 million in 2006, demonstrated the continued support and integration between Western Life and the Network.

Revenue from our corporate and all other segment increased $1.7 million seeing a slight increase in interest income of $250,000 and an increase in our dividend income of $1.5 million. Revenue in corporate and all other is derived mainly from our travel operations along with dividend and investment income at corporate.

Operating Expenses (in $ thousands)

OPERATING EXPENSES		2007		2006
The Network	$	**46,613**	$	32,366
Bank West		**2,713**		2,018
Western Life		**12,102**		9,510
Corporate and all other		**9,130**		7,526
	$	**70,558**	$	51,420

Total operating expenses increased by $19.2 million, or 37.2%, to $70.6 million in 2007 compared to $51.4 million in 2006. As with revenue, the majority of the increase is tied to operating expenses of additional branches for new acquisitions at the Network.

Operating expenses in the Network increased $14.2 million, or 44.0%, to $46.6 million in 2007 compared to $32.4 million in 2006. Our increases in expenses are normally the result of new acquisitions and the increase in activity levels as a result of new business. Acquisition activity increased our operating expenses by $8.5 million 2007. We saw an increase in salaries and wages before acquisitions of $3.8 million which comes from the additional staff required to manage the sales activity in the Network, commissions paid to producers for new business, management succession planning, annual performance reviews and performance bonuses. As a percentage of revenue, salaries and wages including producer commissions remained constant at 50.4%. We expect salaries and wages as a percentage of revenue to generally run at approximately 50.0%. In addition rent increased by $403,000 with the relocation of some of our branches. Advertising of the relocations and business development expenses increased $337,000. The remainder of the change is seen in general operating expenses of the business.

Bank West's operating expenses increased by $695,000 or 34.4%, to $2.7 million in 2007 compared to $2.0 million in 2006. $396,000 of the increase came from salaries and wages as we added additional staff to support the growth of the Bank and the acquisition of Ubiquity along with recruitment and education costs. Professional fees which include internal audit, external audit, legal and director's fees increased $162,000. Occupancy and general office expense increased $162,000.

The premium growth of Western Life increased operating expenses by $2.6 million or 27.5%, to $12.1 million in 2007 compared to $9.5 million in 2006. Additional commissions and third party administration expenses correlate to the growth in premiums. Total policyholder benefits, comprising of provisions for actuarial liabilities, claims incurred and surrenders, were $13.9 million in 2007 compared to $13.6 million in 2006. While experiencing increased individual and group claims in 2007 compared to 2006, Western Life posted a loss ratio of 42.9% in 2007 or 3.0% lower than 2006 which was at 45.9%. This reflects the percentage of claims to net premiums written.

Corporate and all other segment expenses increased $1.6 million or 21.3%, to $9.1 million in 2007 compared to $7.5 million in 2006. We chose to take additional steps to enhance our customer awareness which increased our branding and promotion costs by $746,000. As we invest in the learning, development and leadership skills of our people we have budgeted costs associated with this. In 2007 we increased our investment in staff learning and development by $400,000. Other increases in expenses are reflected in taking our human resources, learning and development and internal audit and compliance teams to the next level resulting in additions wages of $600,000.

Income from long-term investments

Income from long-term investments decreased $151,000, or 6.5% in 2007. These investments include Jennings Capital Inc., Harvard Western Ventures Inc., Falkins Insurance Group Limited, Hayhurst Elias Dudek Inc., and Archibald Clarke

& Defieux Insurance Services Inc. In 2007 we acquired the remaining 75% of Northcountry Insurance Agencies Ltd. thereby changing the investment to a wholly owned subsidiary with results reflected in our operating results. These decreases were offset by an increase in income from Hayhurst Elias Dudek Inc. in 2007 and our investment in Archibald Clarke & Defieux Insurance Services Inc.

(Loss) Gain on sale of investments and capital assests

In 2007 we disposed of shares in one of our investments which is accounted for by the equity method. Under this method, as we realize income from our investment the carrying value of the investment increases. In this case, when the shares were sold the transaction was done at our average cost resulting in a loss of $400,000. This was a strategic move to realign the ownership of our investment which may happen from time to time. In 2006, we recorded a one-time gain of $488,000 ($434,000 after-tax) on the sale of building and land assets.

Income taxes

Income taxes increased $1.7 million, or 87.2%, to $3.7 million in 2007 compared to $2.0 million in 2006. Our effective tax rate, increased to 23.0% from 20.0% in 2006. This increase was the result of a reduction in our non-taxable income which includes a portion of our income from equity investments offset by further reductions in the Federal and Provincial income tax rates.

Net income

Net income increased $4.2 million or 52.9%, to $12.2 million in 2007 compared to $8.0 million in 2006. This increase was due to the increase in our operating income, offset by the decrease in our income from long-term investments and the increase in our effective tax rate.

Selected Quarterly Financial Information

For the Quarters Ended — 2007

(In $ thousands except per share amounts)

	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Total revenue	$ 24,559	$ 26,645	$ 29,554	$ 33,369
Income before income taxes	3,540	5,538	3,445	3,416
Net income	2,545	4,090	2,344	3,234
Earnings per share				
Basic	$ 0.06	$ 0.08	$ 0.05	$ 0.05
Diluted	$ 0.05	$ 0.07	$ 0.04	$ 0.05

For the Quarters Ended — 2006

(In $ thousands except per share amounts)

	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Total revenue	$ 17,792	$ 20,996	$ 21,480	$ 22,375
Income before income taxes	1,444	3,058	2,313	3,163
Net income	1,145	2,379	1,486	2,978
Earnings per share				
Basic	$ 0.04	$ 0.08	$ 0.05	$ 0.05
Diluted	$ 0.04	$ 0.06	$ 0.04	$ 0.06

In the quarter ended December 31, 2007, the Company's fourth quarter, we generated revenue of $33.4 million, net income of $3.2 million, and earnings per share of $0.05. This compares to revenue of $22.4 million, net income of $3.0 million and earnings per share of $0.05 in 2006. The fourth quarter increase over 2006 is due to the growth in operations from the acquisitions at the Network and Bank West, the increased operating profits at Western Life, and the increase in dividend income at Corporate.

Liquidity and capital resources

Total shareholders' equity as at December 31, 2007 increased by $67.1 million to $198.4 million, which is 51.1% higher than at December 31, 2006. We increased retained earnings by $9.5 million from our 2007 income less our paid and accrued dividends

on common and preferred shares. The conversion on August 24, 2007 of our 4% subordinated convertible redeemable debentures due January 2010, as well as partial conversion on December 13, 2007 of $5 million of our 4% subordinated convertible redeemable debentures due March 2009 increased common share capital by $10.1 million. The conversion of debentures along with the grant and exercise of options, and the issuance of preferred share capital increased share capital, other paid in capital and contributed surplus in total by $58.1 million.

We expect our capital resources will be sufficient to satisfy our financial requirements, which include business acquisitions and capital expenditures. Capital resources include cash, funds raised through equity financings, available senior bank debt and funds generated from operations.

We have a credit facility to a maximum of $40.0 million negotiated with a Canadian chartered bank. As of December 31, 2007, $27.6 million of this facility had been utilized. Pursuant to the terms of this credit facility, we make monthly loan payments of $263,000 plus interest. Repayment of the credit facility is dependent upon annual renewal. In the event the Bank of Montreal elects not to extend the initial period, the facility will convert to a two-year committed term facility for all amounts due thereunder. In March 2003, we entered into an interest rate swap agreement exchanging $8.0 million of floating rate debt for a fixed rate of 6.225%. This debt requires interest payments only. The swap agreement expires May 2008. At December 31, 2007, we were in compliance with the financial covenants of our senior credit facility.

At December 31, 2007, we also had a total of $ 5.0 million in subordinated convertible redeemable debentures due 2009. The Company anticipates that these will be fully converted by March 31, 2008.

At December 31, 2007, we had a total of $1.0 million of unsecured subordinated notes with interest payable semi-annually at 12% per annum. The notes are redeemable by the Company after March 2010.

At December 31, 2007 we had cash of $36.0 million as compared to $9.1 million at December 31, 2006. Operations contributed $27.9 million as compared to $15.9 million in 2006 due to the increase in accounts payable with deposits at Bank West and accruals for purchase price adjustments which increased our investments. Cash used in investing activities was $113.6 million in 2007 as compared to $100.5 million in 2006. We decreased our investments with the full acquisition and reporting change of Northcountry Insurance Agencies Ltd. in 2007, and the decrease in our investment in Jennings Capital Inc. as Jennings employee share ownership increased. We increased our acquisitions activity by $43.8 million in 2007. In 2007, $112.7 million was provided by our financing activities. Net proceeds from the exercise of stock options and two private placements of preferred shares provided $42.6 million. We made repayment of $21.6 million on our credit facility and other sources of long-term debt after advances of $40.1 million. We paid total cash dividends of $2.1 million on common and preferred shares. Our customer deposits supporting our customer loans at Bank West increased by $2.0 million over 2006. This resulted in an increase in cash for the year of $27.0 million.

Contingent obligations

(in thousands, except for per share amounts)

In the normal course of business Bank West issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at year end are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $7,213 (2006 – $5,617).

Under the terms of the investment agreements with Hayhurst Elias Dudek Inc., and Archibald Clarke and Defieux (Prince Rupert) Insurance Services Ltd., and the purchase agreement with the Sawchuk Group additional consideration may be granted contingent on earnings levels in the future. The Sawchuk Group consists of Pomeroy Insurance Services Ltd., J.W. Baker Insurance Agencies Inc., Northland Insurance Services Ltd., and Geer and Spice Insurance Agencies Ltd. The amount and outcome of contingent consideration cannot be reasonably estimated and has not been recognized in the financial statements.

The company is committed to the following annual property lease payments, and long-term debt payments between 2008 and 2012.

	Property Leases	Long-Term Debt
2008	$ 3,351	$ 16,174
2009	2,966	3,180
2010	2,493	4,173
2011	2,238	3,157
2012	1,995	3,157

Transactions with related parties

(in thousands, except for per share amounts)

Related parties include directors, officers and their related companies. The prices and terms of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount.

- Interest of $34 (2006 – $8) was paid to Jennings Capital Inc., an affiliated Company in which a director holds an interest, for investment margin loan activity throughout the year.
- Dividend income on preferred shares of $1,847 (2006 – $396) and income from equity investments of $558 (2006 – $1,492) were recorded with respect to our investment in Jennings Capital Inc.
- Underwriting fees of $540 (2006 – $909) were paid to Jennings Capital Inc., in connection with their participation in our Preferred Share Offerings (2006 – Common Share Offering).
- Commission income of $96 (2006 – $13) and fees for computer service of $67 (2006 – $70) were received for services provided to Jennings Capital Inc.
- Dividends on preferred shares in the amount of $2 (2006 – $5) were paid to a company controlled by a director.

Other transactions and balances outstanding are disclosed in Financial Statement Note 8 – Other Assets.

Subsequent Events

In 2007 the Company entered into a memorandum of understanding and term sheet with respect to the acquisition of the Insurance brokerage business of Southern Insurance Management Inc. in Lethbridge, Alberta. This acquisition was finalized in January 2008 and was financed using the Company's senior credit facility.

In January 2008, the Company received notice from an equity investee pursuant to a shareholders agreement that additional voting shares will be sold to the Company. This increase in equity ownership is expected to be completed by March 31, 2008.

The Company announced on February 28, 2008 a normal course issuer bid commencing March 3, 2008 and ending upon the earlier of the completion of the bid and March 2, 2009. Under the program, Western Financial Group Inc. may purchase, for cancellation, up to 2,387,642 common shares, representing approximately 5% of the amount outstanding on February 26, 2008.

Outstanding Share Data

At December 31, 2007, the balance of issued common shares was 47,752,851, for a total value of $112.1 million. During the year we issued 250,000 preferred Series 3 and 200,000 perferred Series 4 shares for a total value of $ 45.0 million. In 2007, 3,000 Series 2 preferred shares were converted into 83,416 common shares. On August 24 and December 13, 2007 subordinated convertible redeemable debentures were converted resulting in the issuance of 3,205,128 common shares. We issued 1,298,422 common shares pursuant to business acquisitions in 2007. At the date of this report the balance of issued common shares was 47,766,740.

We have a fixed stock option plan under which we may grant options to directors, officers, shareholders and consultants to an aggregate maximum of 1,600,000 common shares. In 2007 we granted 73,000 options, had 266,000 options exercised, and had 320,000 options outstanding at December 31, 2007 with 1,280,000 available for grant. Of those outstanding, 247,000 were exercisable at December 31, 2007.

At December 31, 2007, the Company had the following preferred equity securities outstanding: 145,497 first preferred series 2 shares outstanding with a principal value of $14,549,700 and convertible into a maximum of 4,041,583 common shares; 250,000 first preferred series 3 shares outstanding with a principal value of $25,000,000 and convertible into a maximum of 3,448,276 common shares; and 200,000 first preferred

series 4 shares outstanding with a principal value of $20,000,000 and convertible into a maximum of 2,898,551 common shares.

Critical Factors Affecting Results

The level of revenue and earnings from our operations depends on several factors including basic commission levels paid to us for the sale of P&C insurance products, the amount of contingent commissions paid by our main P&C insurance providers, our ability to sell additional financial products and services to the existing customer base of the Network, returns on our corporate and financial investments and our ability to control and manage expenses.

Revenue

A significant element of our revenue is the receipt of basic commissions from our P&C insurance providers. Basic commission levels vary by province and product but generally range from 5.0% to 20.0% of the premiums written and are typically paid at a rate of 12.5% for premiums sold for automobile insurance and 20.0% for premiums sold for property and liability insurance. As part of our overall agreements with our larger P&C insurance providers, we have negotiated various levels of contingent commissions, which are based on previous years' business written with that particular P&C insurer and are usually determined by profitability and volume. Furthermore, the Network's sales of complementary financial products and services such as banking products, life and health insurance products, group benefits, mutual funds and investment products also continue to grow.

In addition we generate revenues from several other sources. Sales of Bank West products and agency banking products such as GICs, loans and mortgages have been growing steadily and are becoming a meaningful source of revenue, as are premiums generated through Western Life for group and individual life insurance, group health coverage, and creditor insurance.

Expenses

Our expenses consist primarily of salaries and wages expense (which include benefits and bonuses) as well as overhead and administrative expenses. As our single largest expense is employee salaries and wages, any significant changes in this area will have a meaningful impact on our overall expenses. The largest portion of our expenses relates to operating the Network. We monitor the expenses through local budgets that are set by each branch office and segment of the Company. These expense budgets are approved by our senior management and are monitored on an ongoing basis. As the Network is a broker, it does not bear any expense as a result of a customer making an insurance claim. The financial impact of insurance claims is a potential decrease in the contingent commission paid to us. However, as contingent commissions are paid to us based on the aggregate number of policies placed with a P&C insurer, only a very large individual loss could impact the overall contingent commission paid. With the sale of life products actuarial liabilities are computed to properly match policy holder benefits and expenses to revenue.

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2007. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2007, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

Internal Control over Financial Reporting

As at the financial year ended December 31, 2006, the Chief Executive Officer and Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal control over financial reporting was effective as at December 31, 2007, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Regulation

The industries in which we operate are regulated for the sale of all P&C insurance, banking products, life and health insurance products, mutual funds and investments. Changes in these regulations may significantly affect our operations and financial results.

Critical Accounting Estimates and Assumptions

Our consolidated financial statements are prepared in accordance with Canadian GAAP as further described in Note 2 of our audited financial statements. These accounting policies require our management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the allowance for loan losses, assessment of impairment of goodwill, the useful life of intangible assets, allocation of purchase price of an acquisition to goodwill and intangible assets, allowance for policy cancellations of commission revenue and stock based compensation, and future income taxes. Estimates are based on our management's experience, terms of contracts and policies, observation of industry trends and information provided by outside sources. These estimates are more fully discussed below.

Mortgages and Loans

Bank West has a general allowance for loan losses for the portfolio of mortgages and loans that it provides to individuals and businesses, which is estimated using industry knowledge of similar loan portfolios, in addition to specific provisions for identifiable impaired loans. The general allowance is based on an assessment of existing economic and portfolio conditions which will change over time. The general allowance is re-assessed monthly and fluctuates as a result of changes in portfolio volumes, concentrations and risk profile and analysis of evolving trends. Changes in this estimate will impact the net interest income portion of revenue reported by Bank West.

Actuarial Liabilities

Actuarial liabilities are determined by the Appointed Actuary using the Canadian Asset Liability Method and represent the amount, which, together with future policy premiums and investment income, will be sufficient to meet future benefits and expenses.

Reinsurance

Western Life follows the policy of underwriting and reinsuring contracts of insurance which, depending on the type of insurance, limits their liability to a maximum amount of $100,000 per life insured or $2,500 per month for any disability income claim. Western Life reflects reinsurance balances on the balance sheet and income statements on a net basis. Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. All current new business is placed with registered reinsurers.

Goodwill

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment at least annually basis by comparing the fair value of each reporting segment to its book value. The fair value of a reporting segment is estimated using revenue and earnings multiples that have been observed in the relevant industry. In 2007 an independent valuation confirmed that the valuation principles used were accurate and that there was no impairment to goodwill recorded in the financial statements. An internal evaluation was completed in 2006 and no impairment was identified.

Intangible Assets Add Ubiquity

Intangible assets in respect of purchased customer contracts and related customer relationships are being amortized on a straight-line basis over the estimated life of the asset. For the Network, we have relied on our past experience with respect to customer retention in determining a 30-year life for purchased customer contracts and the related relationships. Customer retention rates may change over time based on competition in our markets. Any changes in retention rates would result in changes to the useful life and annual amortization expense. For Bank West, intangibles acquired through the purchase of Ubiquity Bank have been conservatively amortized over a 5-year life to reflect the average length of acquired customer contracts. We annually assess whether the life of the intangible asset is appropriate as well as for impairment by comparing the carrying amount to its fair value. Indefinite-life assets are subject to impairment tests under Canadian GAAP on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value.

Allocation of the Purchase Price of an Acquisition

Acquiring businesses that are competing with our existing businesses is a fundamental component of our growth strategy. When we acquire a business, the purchase price allocated to the assets acquired and the liabilities assumed are based on their fair values. Any excess of purchase price over identified assets and liabilities is allocated to goodwill. The fair value of assets, including intangible assets, is determined using valuation methods including net realizable value and discounted cash flows. The use of assumptions, which are based on our management's judgment, is inherent in the application of these valuation methods. The use of different judgments, estimates and valuation methods may result in different allocations of the purchase price and, as a result, different results of operations.

Revenue Recognition

P&C insurance commission revenue is recognized when the P&C insurance policy sold is in place and the amount of the commission earned is determinable. Contingent commissions are recorded when amounts can be determined and are recognized when they are earned. The determination of contingent commissions is based on estimates received from P&C insurance companies and may vary from actual amounts received. Commission revenue is reported net of an allowance for commission losses that may be incurred if a policy is cancelled.

Revenues from banking operations are classified as net interest income with revenue recognized in the period earned.

Premium revenue from all types of life insurance contracts are recognized as revenue when due.

Investment income arises from excess working capital that is invested in preferred shares and short-term deposits. Investment and interest income consists of dividends earned and gains (losses) realized on the sale of these preferred shares and interest earned on these deposits.

Changes in accounting policy

Financial instruments, hedges and comprehensive income

Commencing January 1, 2007, the Company adopted new accounting standards required by the Canadian Institute of Chartered Accountants (CICA) relating to Financial Instruments – Recognition and Measurement – CICA Handbook section 3855, Financial Instruments – disclosure and presentation – CICA Handbook section 3861, Comprehensive Income – CICA Handbook section 1530, Hedges – CICA Handbook section 3865 , Equity – CICA Handbook section 3251, and the other amendments to the CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. The Company has adopted and applied these standards in accordance with their transitional provisions. Recognition, derecognition and measurement policies followed in financial statements for prior periods have not been restated.

Under the new standards, all financial assets are classified as available-for-sale, held-for-trading, held-to-maturity, or loans and receivables, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. All financial instruments classified as available-for-sale or held-for-trading are required to be recognized at fair value on the consolidated balance sheet while financial instruments classified as loans and receivables or other continue to be measured at amortized cost using the effective interest rate method. Unrealized gains and losses on financial instruments that are classified as available-for-sale are reported in other comprehensive income and accumulated under a new balance sheet category called accumulated other comprehensive income. When unrealized gains and losses become realized through sale or impairment, they are reclassified from accumulated other comprehensive income to investment income. Income earned on available-for-sale financial assets is recorded directly to investment income. Unrealized gains and losses on financial instruments that are classified as held-for-trading are recognized along with income earned directly in the consolidated statement of income as investment income – change in fair value of held-for-trading assets. Unrealized gains and losses on changes in fair value of held-for-trading assets are reflected in the consolidated statement of cash flows under non-cash items in a new category called unrealized gains and losses on held-for-trading assets. Fair values for financial instruments traded in an active market have been determined by the quoted market bid price. Fair values of non-publicly traded financial instruments have been determined using a discounted cash flow approach.

All derivative financial instruments are reported on the balance sheet at fair value. Changes in fair value are recognized in net income unless the derivative is part of a hedging relationship that qualifies as a cash flow hedge. In a cash flow hedging relationship, the change in fair value of the hedging derivative is recognized in other comprehensive income except for any ineffective portion which is recognized in net income as investment income. The amounts accumulated in accumulated other comprehensive income are reclassified to net income in periods in which net income is affected by the variability in the cash flows of the hedged item.

The Company is also required to identify derivatives embedded in other contracts unless the host contract is an insurance policy issued by the Company. Embedded derivatives identified are separated from the host contract and accounted for as a derivative if the following conditions are met: the host contract is not already measured at fair value with changes in fair value recognized in net income, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Where the Company is required to separate an embedded derivative from its host contract but is unable to measure the fair value of the embedded derivative separately, the entire combined contract is treated as a held-for-trading financial instrument measured at fair value with changes in fair value recognized in net income.

Under the new standards, the Company is required to present a new statement of comprehensive income and its components, as well as the components of accumulated other comprehensive income in its consolidated financial statements. Comprehensive income includes both net income and other comprehensive income (OCI). Major components of OCI include changes in unrealized gains and losses of financial assets classified as available-for-sale, and changes in fair value of effective cash flow hedges.

Impact:

On January 1, 2007, as a result of adopting the new standards, deferred realized gains and losses on sales of financial assets previously accounted for as life insurance portfolio investments, including gains and losses arising from sales of bonds, and stocks were recorded to retained earnings. Realized gains and losses on the sales of these assets occurring on or after January 1, 2007, are recorded in investment income.

Also on January 1, 2007, the Company designated bonds, stocks, and other invested assets supporting actuarial liabilities with a carrying value of $39,545 and fair value of $44,292 as held-for-trading. The difference between the fair value and carrying value of these investments, net of related tax expense was recorded to retained earnings on January 1, 2007. These assets were designated as such in order to match the measurement of the liabilities they are supporting. Corresponding changes in the values assigned to actuarial liabilities are supported, in part, by assets that are designated as held-for-trading. A significant portion of the changes in fair value of assets supporting actuarial liabilities is offset against the changed values assigned to actuarial liabilities recorded to retained earnings on transition, and net income after January 1, 2007.

The Company also designated bonds, stocks, and other invested assets not supporting actuarial liabilities with a carrying value of $17,179 and fair value of $18,043 as available-for-sale. The difference between the fair value and carrying value of these assets, net of related tax expense, was recorded to opening OCI as of January 1, 2007. When these differences are realized through asset sale or impairment, gains and losses and related tax expense previously recorded in accumulated other comprehensive income are reclassified to net income.

The Canadian government has recently announced its intention to align the current Canadian tax rules with the new financial reporting standards. However, detailed tax rules were not substantively enacted at the time of finalizing these consolidated financial statements and therefore the Company is unable to reliably estimate the impact of potential tax rule changes on future income tax calculations and opening retained earnings adjustments. As a result, the Company has assumed that the future level of taxes paid by the Company will be consistent with existing legislation.

The financial statement categories most significantly impacted by these new standards at January 1, 2007, are as follows:

Balance sheet category	Increase/(Decrease) in thousands		Explanation
Marketable securities	$	5,611	Adjust carrying value to fair value.
Deferred gain on investments	$	(5,164)	Reclass deferred gains to opening retained earnings.
Actuarial liabilities	$	9,323	Adjust in conjunction with fair value measurements of related assets.
Future income taxes payable	$	315	Record changes in taxable temporary differences resulting from changes to the carrying value of assets and liabilities.
Accumulated Other comprehensive income	$	696	After-tax impact of net unrealized gains on available-for-sale securities.
Provision for unpaid and unreported claims	$	141	Adjust in conjunction with fair value measurements of assets.
Deferred charges	$	(641)	Reclass as an offset to the related debt obligation.
Long-term debt	$	(641)	Adjust to include reclassification of deferred charges.
Prepaid expenses	$	(2,723)	Reclass prepaid commissions as an offset to related mortgages and loans and customer deposits.
Mortgages and loans	$	1,800	Adjust to include reclassification of prepaid commissions.
Customer deposits	$	(923)	Adjust to include reclassification of prepaid commissions.

The increase (decrease) to opening retained earnings is summarized below:

Balance sheet category	Increase/(Decrease) in thousands		Explanation
Retained earnings	$	4,747	Increase due to recording held-for-trading assets at fair value.
Retained earnings	$	5,164	Increase due to recognition of previously deferred net realized gains and other fair value adjustments.
Retained earnings	$	(9,464)	Decrease due to change in actuarial liabilities and other policy liabilities.
Retained earnings	$	(147)	Decrease due to income taxes.
Net Retained earnings adjustment	$	300	Total increase in opening retained earnings, January 1, 2007.

Future Accounting Policies

The Canadian Institute of Chartered Accountants (CICA) issued a new accounting standard, Section 1535 – Capital Disclosures, which requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital. These recommendations are effective for the Corporation January 1, 2008.

The CICA also issued a new accounting standard, Section 3862 – Financial Instruments – Disclosures, which requires disclosures of both qualitative and quantitative information enabling users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed. Also issued is Section 3863 – Financial Instruments Presentation which carries forward unchanged the related presentation requirements of existing Section 3861. These recommendations are effective for the Corporation January 1, 2008, and will primarily impact the disclosures made in the Consolidated financial statements of the Company.

Risks Inherent in Our Business

Effective risk management is fundamental to our ability to protect the interest of our shareholders and is required in order to comply with various regulatory requirements applicable to our operations. Our management oversees and manages our risk along with oversight and advice from both our audit and risk committee and those of Bank West and Western Life. We perform an analytical review of our operations during our quarterly reviews and involve every level of our management in our monthly reporting.

Contingent Commissions

Many P&C insurance companies pay us contingent commissions for achieving profitability and premium volume goals set by them and/or based on the loss experience of the insurance we place with them. We generally receive contingent commissions in the first and second quarters of each year in respect of contingent commissions earned in the previous year. However, we have no control over the ability of P&C insurance companies to estimate loss reserves, which is a factor that affects the amount of contingent commissions that we will receive. In addition, because no significant incremental operating costs are incurred when contingent commissions are realized, a significant decrease in contingent commissions can cause a disproportionate decrease in net income and would consequently have a negative impact on our financial results. This could limit our ability to incur and service debt and comply with financial covenants in our existing credit facility and could have a material adverse effect on our business, financial condition and result of operations.

Acquisitions and Growth

Our growth plans depend in part upon the ongoing acquisition, at reasonable prices, of independent brokers and other businesses. To meet our growth plans an adequate number of acquisition candidates must be available at prices which will allow us to operate on a profitable basis. We may determine that current market or pricing conditions in the P&C insurance brokerage industry make future acquisitions uneconomical, or that the available acquisition opportunities are not sufficiently attractive to us. Moreover, we may not be able to finance such acquisitions as additional capital may not be available or may not be available on commercially acceptable terms.

To manage any future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain our employees. There can be no assurance that we will be able to manage such growth effectively, that our management, personnel or systems will be adequate to support our operations or that we will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth, and failure to do so could have a material adverse effect on our business, financial condition and results of operations.

As part of our growth strategy, we seek to cross-sell multiple lines of business to existing customers. This strategy may not result in achieving our desired growth. Due in part to the decentralized nature of our operations, we may have difficulty in focusing our employees on our sales management program and cross selling strategy. In addition, we may have difficulty integrating acquired operations and newly hired employees into our sales management program and cross selling strategy.

We have identified approximately 125 target communities (that we estimate have 400 brokers) for future expansion in the next two to four years. There is no assurance that we can complete acquisitions in any of these communities within the estimated time frame or at all.

Although we conduct due diligence in respect of the business and operations of each of the businesses we acquire, we may not have identified all material facts concerning these businesses. Unanticipated events or liabilities relating to these businesses could have a material adverse effect on our financial condition. Furthermore, once we have integrated an acquired business, it may not achieve levels of revenue, profitability, or productivity comparable to our existing locations, or otherwise perform as expected. Our failure to succeed in our growth strategy or to integrate one or more acquired business so that it achieves our performance goals may have a material adverse effect on our results of operations and financial condition.

Capital Funding

We will, from time to time, require additional financing to continue to grow our business. Our ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance. There can be no assurance that we will be successful in our efforts to arrange additional financing, if needed, on terms satisfactory to us. If additional financing is raised by the issuance of common shares from treasury our control may change and our shareholders may suffer additional dilution. From time to time we may enter into transactions or expend funds in a manner which may be financed partially or wholly with debt and may increase our debt levels above industry standards.

Interest Rates

An increase in interest rates may result in increased costs of borrowing for us on both existing and future debt instruments or credit facilities and such increased costs would negatively affect our operating results. We are also exposed to interest rate risk arising from the difference between the repricing dates of Bank West's assets and liabilities. The differentials, or interest rate gaps, arise as a result of the differences in term preferences of borrowers and depositors. A positive interest rate gap exists when interest sensitive assets exceed interest sensitive liabilities for a specific repricing period. A positive gap would result in decreased interest income when market interest rates fall because assets are repricing earlier than liabilities. Rising market interest rates have the opposite effect. The effect of an interest rate gap and changing market interest rates may have a negative effect on Bank West's results of operation and financial condition.

Investment Risk

Investment risk is the exposure to investment loss from general economic and stock market fluctuations. We have invested a significant amount of our excess working capital in preferred shares of Canadian corporations rated "Pfd-1" and "P1" and "Pfd-2" and "P2" by Dominion Bond Rating Services or Standard & Poor's, a division of The McGraw-Hill Companies Inc., respectively. Bank West is also invested in government and corporate bonds and securities. Western Life also maintains an investment portfolio in support of its actuarial liabilities and an additional investment portfolio of capital surplus funds. Both portfolios contain bonds and equities. A significant decline in the value or yields of these securities that we own could have a material adverse effect on our business, results of operations and financial condition. Our ability to achieve our investment objectives is affected by general economic conditions that are beyond our control. These investments are subject to the risk, among others, that the financial condition of issuers in which we invest may become impaired or the general condition of the stock market deteriorates. We may experience losses as a result of this risk and any such losses may be significant.

Credit Risk

We are exposed to credit risk with respect to our marketable securities, accounts receivable and mortgages and loans receivable. We only invest in Canadian corporations and institutions with large capitalization to reduce credit risk, however, changing economic conditions or the change in the financial condition of the issuer of the securities can result in increased defaults by the issuer whose securities we own. Credit risk associated with our accounts receivable is minimized by our large and diverse customer base, which covers all consumer and business sectors in Western Canada. However, we cannot ensure that our debtors will pay our accounts receivable on a timely basis or at all which could have a material adverse effect on our results of operations and financial condition. Credit risk associated with Bank West's mortgages and loans is mitigated through conservative underwriting policies, charges against real property and mortgage insurance, however, we cannot ensure that Bank West's debtors will pay these loans or mortgages on a timely basis or at all or that any associated security will be sufficient to cover the amount of any indebtedness. As a result, failure to repay these amounts could have a material adverse effect on our results of operations or financial condition.

Pricing Risk

Pricing of life and health insurance policies involves estimates and assumptions of such factors as mortality, morbidity, future investment yields, expenses and surrenders. Pricing risk is the risk that the actual experience will not develop as estimated. Management of pricing risk involves careful product design, extensive use of modeling and sensitivity testing as well as monitoring through experience studies. Despite management of these risks, there can be no guarantee that actual experience will not differ from the assumptions made in the pricing of the insurance products of Western Life from time to time. Western Life manages this risk through comprehensive underwriting and claims payment guidelines. In addition, reinsurance is used to mitigate exposure to individual lives or benefits. Western Life's maximum retentions are subject to board approval.

Regulation

Our insurance, investments and mutual fund operations depend on our continued good standing under the licenses and approvals pursuant to which we operate. In all jurisdictions, the applicable licensing laws and regulations are subject to amendment or interpretation by regulatory authorities, and generally such authorities are vested with relatively broad and general discretion as to the granting, renewing and revoking of licenses and approvals. There can be no assurance that we will be able to obtain or retain all required licenses or that the cost of complying with these regulations will not increase. Any increase in the cost of complying with government regulation will have a negative effect on our operating results, as will the loss or inability to obtain any material license required to operate the business.

Changes to laws or regulations, including the adoption of generous consumer protection measures or other initiatives regarding contingent or other commissions or rates charged for automobile insurance or claims handling procedures, could materially adversely affect our business, results of operations and financial conditions.

Bank West and Western Life could be subject to regulatory actions, sanctions and fines if a regulatory authority believed it had failed to comply with any applicable law or regulation.

Where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a bank or a federal insurance company, the Superintendent may direct the bank or insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of a bank or insurance company or take control of the bank or insurance company.

More restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult and/or expensive. Specifically, recently adopted legislation addressing privacy issues, among other matters, is expected to lead to additional regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on our operations.

The revenue we generate from the sale of automobile insurance policies represents a significant portion of our overall revenues. As a result, any action by government authorities to change the nature of the automobile insurance industry in our markets could affect our commission levels and our revenues.

Nature of our Business

Our fixed costs (including costs associated with salaries and employee benefits and bonuses, depreciation and amortization, and interest expense and principal repayments), account for a significant portion of our costs and expenses. As a result, low productivity resulting from lower demand or other factors or a decrease in the premium rates, volume and commission paid in the segments of the P&C insurance industry in which we operate could have a material adverse effect on our business, financial condition and results of operations.

Brokers distribute insurance polices underwritten by P&C insurance companies. Some P&C insurance companies offer their products through dedicated, captive sales organizations. If the number of such P&C insurance company's increases, our revenues may decrease, which decrease could have a material adverse effect on our business, financial condition and results of operations.

Insurance Products

Our operations and success depend in part upon access to products sold by Canadian and international insurance companies. Our existing brokerage contracts with certain insurance companies do not have a set term or expiry date, but may be terminated by either party with between 90-120 days' written notice, depending on the specific contract. To reduce this risk, we have entered into business development agreements with a number of major Canadian insurance companies. Our ability to carry on business is dependent on our continuing ability to attract and maintain relationships with these insurance companies. However, other than pursuant to these agreements, there can be no assurance that we will continue to have access to such insurance products.

An inability to maintain or obtain access to insurance products would have a negative impact on us. Although we can obtain replacement business for departing insurance companies, the loss of such business, particularly of a major current provider, could have a material adverse effect on our business, financial condition and results of operations.

Further, any significant decrease in the premium rates, volume or basic or contingent commissions paid in the segments of the insurance industry in which we operate can adversely impact us.

Competition

Our performance is impacted by the level of competition in the markets in which we operate. Each of our businesses operate in highly competitive markets. Customer retention may be influenced by many factors, including relative service levels, the prices and attributes of products and services, changes in products and services, and actions taken by competitors.

Dependence on Key Personnel

Our success is largely dependent on the performance of our key employees and senior management. Failure to retain our key employees or to attract and retain additional key employees with necessary skills could have a materially adverse impact on our growth and profitability. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

Errors and Omissions Claims

We have extensive operations and are subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions in placing insurance and handling claims. The placement of insurance and the handling of claims involve substantial amounts of money. Since errors and omissions claims against us may allege our potential liability for all or part of the amounts in question, claimants may seek large damage awards and these claims can involve significant defence costs. Errors and omissions could include, for example, our employees or sub-agents failing, whether negligently or intentionally, to place coverage or file claims on behalf of customers, to appropriately and adequately disclose insurer fee arrangements to our customers, to provide insurance providers with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our customers on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions we take may not be effective in all cases.

Our business, financial condition and/or results may be negatively affected if in the future our errors and omissions insurance proves to be inadequate or unavailable. In addition, errors and omissions claims may harm our reputation or divert management resources away from operating our business.

Unpredictable Catastrophic Events

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Catastrophes can cause losses in a variety of P&C insurance lines, including business interruption, business personal property and workers' compensation. It is possible that a catastrophic event or multiple catastrophic events could have a material adverse effect upon contingent commissions which we would expect to receive from a P&C insurer who experienced significant losses, the result of which could have a material adverse effect on our net income and financial condition.

Changes in the business and economic environment

Our business and results can be significantly affected by changes in the business and economic environment, including: changes in the level of demand for P&C insurance; price competition and variation in other terms and conditions of trade; increases in the supply of P&C insurance as a result of new capital provided by recent or future market entrants or by existing P&C insurers; volatile and unpredictable developments (including catastrophes); fluctuations in interest rates and/or price competition. The P&C insurance industry historically has experienced pricing and profitability cycles related to levels of industry underwriting capacity. As a

consequence of fluctuations in pricing and P&C insurer profitability we may suffer declines in both basic and contingent commissions which could have a material adverse effect on our net income and financial condition.

Failure of computer and data processing systems

Our business is dependent upon the successful and uninterrupted functioning of our computer and data processing systems. The failure of these systems could interrupt our operations or materially impact our ability to rapidly evaluate and commit to new business opportunities. If sustained or repeated, system failures could result in the loss of existing or potential business relationships or could negatively affect our financial results.

Dividend Policy

The Corporation's common share dividend policy which, upon the satisfaction of certain conditions, provides for thc payment of a quarterly dividend which began following the completion of the Corporation's 2006 fiscal year. The payment of dividends and the timing and amount of such dividends is subject to the discretion of the Board of Directors and depends on, among other things, our financial condition, general business conditions, restrictions regarding the payment of dividends by us or to us by our subsidiaries and other factors that the Board of Directors may in the future consider to be relevant. It is expected that dividends will be paid to shareholders of record at March 31, June 30, September 30 and December 31 of each year.

Covenants of the company

In connection with our ongoing business activities, we have made and may make commitments to lenders, bondholders and regulatory authorities that may limit our flexibility to make, or influence, certain business decisions concerning the payment of dividends or the amount of dividends, raising capital, making acquisitions, and incurring additional debt. We believe that these commitments are or would be comparable to those made by similar businesses to our own.

Financial instruments

We have entered into certain financial agreements that are considered to be financial instruments. Subordinated convertible debentures are considered to be compound financial instruments and accordingly, a portion of the debentures is recorded as equity in our audited financial statements. We entered into these agreements to obtain the necessary capital to fund business acquisitions. Financial instruments are subject to credit and interest rate risk as described in our audited financial statements.

Current outlook

The softer pricing market that we experienced in 2006 and 2007 will continue into 2008 particularly for commercial insurance. Competition among P&C insurance companies for commercial policies is expected to continue, with rates now at profitable levels. We recognize that rate increases, and consequently our commission increases, will be minimal if any for the next 12 to 24 months. We do not expect significant rate changes beyond the normal rate of inflation in the next 12 months.

We do not expect there to be significant changes to the financial services industry in general that would have a material impact on the growth of Bank West, WFG Agency Network, Western Life or Jennings Capital. We also anticipate that the life and health insurance industry will remain stable in the medium to long-term, especially in the communities in Western Canada where we operate.

Additional information relating to our Company, including our current Annual Information Form, is available on SEDAR at www.sedar.com.

To the Shareholders of Western Financial Group Inc.

We have audited the consolidated balance sheets of Western Financial Group Inc. as at December 31, 2007 and 2006 and the consolidated statements of income, retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for each of the years in the two year period ended December 31, 2007. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 18, 2008

Management is responsible for preparing the Company's financial statements and the other information that appears in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial condition and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in the Company's financial statements amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

The Company maintains a system of internal accounting policies, procedures and controls intended to provide reasonable assurance, at appropriate cost, that transactions are executed in accordance with Company authorization and are properly recorded and reported in the financial statements, and that assets are adequately safeguarded. PricewaterhouseCoopers LLP audits the Company's consolidated financial statements in accordance with generally accepted accounting standards in Canada which provide an independent review that the statements present fairly, in all material respects, the financial position and results of this operation.

Western Financial Group Inc. Board of Directors has an Audit Committee with non-management Directors. The Committee meets with financial management and the independent auditors to review accounting, auditing and financial reporting matters.

Scott Tannas
President and
Chief Executive Officer

Catherine Rogers
Executive Vice President, Finance
and Chief Financial Officer
March 18, 2008

CONSOLIDATED

AS AT DECEMBER 31, 2007 AND 2006 (in thousands, except for per share amounts)	2007	2006
ASSETS		
Cash and cash equivalents	$ 36,033	$ 9,085
Marketable securities (Note 5)	-	85,243
Marketable securities – held-for-trading (Note 5)	46,886	-
Marketable securities – available-for-sale (Note 5)	51,104	-
Accounts receivable (Note 6)	26,680	23,510
Prepaid expenses	5,929	7,340
Income taxes receivable	2,191	388
Future income taxes (Note 20)	584	1,271
Deferred charges (Note 7)	31	714
Other assets (Note 8)	1,489	2,235
Equity investments (Note 9)	26,100	23,501
Mortgages and loans (Note 10)	288,202	149,051
Capital assets (Note 11)	12,141	8,844
Intangible assets (Note 12)	27,166	14,175
Goodwill (Note 13)	98,165	59,565
	$ 622,701	$ 384,922
LIABILITIES		
Accounts payable and accrued liabilities	$ 55,685	$ 35,944
Actuarial liabilities (Note 14)	38,042	34,754
Provision for unpaid and unreported claims (Note 14)	8,653	6,637
Deferred gain on investments	-	1,295
Customer deposits (Note 15)	283,299	147,118
Longterm debt (Note 16)	33,389	25,164
Future income taxes (Note 20)	5,274	2,790
	$ 424,342	$ 253,702
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	$ 168,693	$ 110,607
Other paid in capital	51	152
Contributed surplus	1,849	1,923
	$ 170,593	$ 112,682
Retained earnings	28,015	18,538
Accumulated other comprehensive loss	(249)	-
	$ 27,766	$ 18,538
Total Shareholders' Equity	198,359	131,220
	$ 622,701	$ 384,922

Approved by the Board: S. Tannas, Director G. Speirs, Director

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (in thousands, except for per share amounts)	2007	2006
REVENUE		
Commission and other customer income	$ 67,826	$ 47,983
Premium income	27,282	22,785
Interest income on customer loans	13,805	8,214
Investment income		
Change in fair value of held-for-trading assets	752	-
Realized gain on sales of available-for-sale	409	-
Realized loss on sales of held-for-trading assets	(78)	-
Other net investment income	4,130	3,661
	114,126	82,643
EXPENSES		
Operating expenses	70,558	51,420
Policyholder benefits	13,934	13,595
Interest expense – customer deposits	9,209	5,223
Provision for credit losses	793	755
Income before the following	19,632	11,650
Income from long-term investments	2,172	2,323
(Loss) gain on sale of investments and capital assets	(400)	566
Interest and financing costs on longterm debt	(2,788)	(2,616)
Amortization of intangible assets	(934)	(439)
Amortization of capital assets	(1,743)	(1,506)
Income before income taxes	15,939	9,978
Income taxes (Note 20)	(3,726)	(1,990)
NET INCOME FOR THE YEAR	12,213	7,988
Retained earnings, beginning of year as previously reported	$ 18,538	$ 11,061
Cumulative effect of adopting new accounting policies (Note 3)	300	-
Retained earnings, beginning of year as restated	18,838	11,061
Preferred share dividends	(1,656)	(511)
Common share dividends	(1,380)	-
Retained earnings, end of year	28,015	18,538
Earnings per share (Note 21)		
Basic	$ 0.24	$ 0.22
Diluted	$ 0.22	$ 0.20

For the years ended December 31, 2007 and 2006 (in thousands, except for per share amounts)	2007	2006
COMPREHENSIVE INCOME		
Net income for the year	$ 12,213	$ 7,988
Other comprehensive loss from available-for-sale financial instruments, net of tax	(945)	-
Comprehensive income	$ 11,268	$ 7,988
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year	$ -	$ -
Impact of fair value measurement of available-for-sale - financial instruments at January 1, 2007 (net of tax of $168)	696	
Balance, as a result of accounting policy change (Note 3)	696	-
Unrealized net loss on available-for-sale financial instruments arising during the year (net of tax of $158)	(852)	-
Reclassification to net income of net gains on sale of available-for-sale financial instruments during the year (net of tax of $17)	(93)	-
Other comprehensive loss for the year, net of tax	(945)	-
Accumulated Other Comprehensive Loss Balance, end of year	$ (249)	$

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (in thousands, except for per share amounts)	2007	2006
CASH PROVIDED BY (USED IN) OPERATIONS		
Net income for the year	$ 12,213	$ 7,988
Noncash items		
Amortization of intangible assets	934	439
Amortization of capital assets	1,743	1,506
Future income taxes	1,343	187
Unrealized gains – held-for-trading assets	(752)	-
Noncash dividends	(438)	(403)
Stock compensation	132	147
Loss (gain) on sale of investments and capital assets	400	(566)
Other noncash expenses	1,315	894
Income from long term investments	(2,117)	(2,267)
Realized net gain – held-for-trading and available-for-sale assets	(331)	-
	14,442	7,925
CHANGE IN NON-CASH WORKING CAPITAL		
Accounts receivable	712	1,438
Prepaid expenses	(1,175)	(1,878)
Accounts payable and accrued liabilities	13,193	7,131
Actuarial liabilities	777	1,247
Provision for unpaid and unreported claims	1,875	572
Deferred gain on investments	-	253
Policy loans	52	73
Income taxes	(1,970)	(881)
	27,906	15,880
CASH PROVIDED BY (USED IN) INVESTING		
Other assets	694	216
Equity investments	(3,651)	(12,983)
Cash used in business acquisitions (Note 4)	(54,969)	(11,214)
Proceeds on sale of capital assets	-	2,502
Capital asset purchases	(4,345)	(2,492)
Goodwill and intangibles	(80)	(2)
Proceeds on sale of marketable securities	217,338	29,209
Investment in marketable securities	(219,175)	(46,898)
Mortgages and loans	(49,446)	(58,848)
	(113,634)	(100,510)
CASH PROVIDED BY (USED IN) FINANCING		
Repayments of longterm debt	(21,606)	(1,596)
Advances of long-term debt	40,051	-
Customer deposits	53,752	51,777
Net proceeds on issue of share capital	42,550	39,026
Deferred finance charges	(4)	(297)
Dividends paid	(2,067)	(511)
	112,676	88,399
Increase in cash for the year	26,948	3,769
Cash and cash equivalents, beginning of year	9,085	5,316
Cash and cash equivalents, end of year	$ 36,033	$ 9,085

NOTE 1 OPERATIONS

Western Financial Group Inc. ("the Company") was incorporated in the province of Alberta as 674658 Alberta Inc. on November 15, 1995, and is engaged in the acquisition and operation of insurance and financial service brokerage businesses, banking activities, life and health insurance underwriting and travel agency operations in rural Western Canada. The banking activities are carried out through a federally incorporated, wholly owned subsidiary, Bank West, which received its bank charter on November 27, 2002, and commenced operations on January 30, 2003. The life and health insurance underwriting activities are carried out through Western Life Assurance Company ("Western Life") a wholly owned subsidiary company licensed to write all classes of life, health, and loss of employment insurance, in all provinces in Canada. Western Life is subject to the Insurance Companies Act of Canada.

NOTE 2 ACCOUNTING POLICIES

As described in Note 3, the Company adopted the following new Canadian Institute of Chartered Accountants accounting standards January 1, 2007: Section 3855 – Financial Instruments Recognition and Measurement, Section 3861 – Financial Instruments – disclosure and presentation, Section 3865 – Hedges, and Section 1530 – Comprehensive income, and Section 3251 – Equity. As a result, certain accounting policies were revised in 2007 as noted below.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary companies, which are wholly owned.

Accounting Estimates

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements, and income and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to other-than-temporary impairment of investment securities, the allowance for credit losses, allowance for policy cancellations, actuarial liabilities, assessment of impairment of goodwill, the useful life of intangible assets, allocation of purchase price to goodwill and intangible assets and future income taxes. Therefore, actual results could differ from these and other estimates.

Cash and Cash Equivalents

Cash and cash equivalents are classified as held-for-trading and include cash and the outstanding amount under the Company's operating lending facility.

Marketable Securities

WESTERN LIFE – HELD-FOR-TRADING INSTRUMENTS

Held-for-trading bonds are recorded at fair value with changes in fair value recorded in investment income – change in fair value of held-for-trading assets. Income earned on held-for-trading bonds is recognized on the accrual basis and recorded in other net investment income. Transaction costs related to the purchase of these bonds are expensed in the period incurred.

WESTERN LIFE – AVAILABLE-FOR-SALE INSTRUMENTS

Available-for-sale bonds and pooled funds are recorded at fair value with changes in fair value recorded as unrealized gains or losses in other comprehensive income. As unrealized gains or losses become realized through investment sale or impairment, they are reclassified from accumulated other comprehensive income to investment income. Income earned on available-for-sale bonds and pooled funds is recognized on the accrual basis and recorded in other net investment income. Transaction costs related to the purchase of these investments are expensed in the period incurred. Interest income is recognized on an accrual basis and premium/discount amortization is recorded under the effective interest method.

BANK WEST – AVAILABLE-FOR-SALE INSTRUMENTS

The Bank has classified its debt securities and equity instruments as available-for-sale and records them at fair value on the consolidated balance sheet. Changes in fair value are recorded as unrealized gains or losses in other comprehensive income. As unrealized gains or losses become realized through investment sale or impairment, they are reclassified from accumulated other comprehensive income to investment income. Transaction costs related to the purchase of debt securities are amortized using the effective interest method along with premiums / discounts over the term of the instrument. Income earned on available-for-sale debt and equity securities are recognized on the accrual basis and recorded in other net investment income.

CORPORATE AND OTHER – AVAILABLE-FOR-SALE INSTRUMENTS

The Company has classified its equity instruments as available-for-sale and records them at fair value on the consolidated balance sheet. Changes in fair value are recorded as unrealized gains or losses in other comprehensive income. As unrealized gains or losses become realized through investment sale or impairment, they are reclassified from accumulated other comprehensive income to investment income.

Transaction costs related to the purchase of these investments are expensed in the period incurred. Income earned on available-for-sale equity securities are recognized on the accrual basis and recorded in other net investment income.

Deferred Charges

Deferred charges include costs related to the start up of new businesses and development of new products. Amounts are being amortized on a straight-line basis commencing in the year of deferral over periods of two to five years. Deferred charges relating to debt financing reduce the related debt obligation and are amortized over the debt term using the effective interest method.

Equity Investments

Entities which are not controlled and over which the Company has the ability to exercise significant influence, referred to as affiliated companies, are accounted for using the equity method and include recognition of the Company's proportionate share of changes in the investee's other comprehensive income. The excess of purchase price over underlying fair value of assets and liabilities of equity accounted for investments is allocated to goodwill. Goodwill is not amortized, but is tested for impairment annually.

Mortgages and Loans

The Company has classified its mortgages and loans as loans and receivables and records them at cost or amortized cost in the Consolidated Financial Statements.

WESTERN LIFE

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender values of the policies on which the respective loans are made.

BANK WEST

Current performing loans are stated at cost net of an allowance for credit losses. Loans that are considered impaired are recorded at the net present value of expected future cash flows. Loans are considered impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collections of both principal and interest. Loans will be returned to performing status when there is reasonable assurance of collection and all delinquent principal and interest payments are brought current.

SPECIFIC ALLOWANCE

A specific allowance for loss is provided when loans are considered to be impaired, which occurs when they are either more than 90 days in arrears, or there is no longer reasonable assurance of timely collection of outstanding principal and interest.

GENERAL ALLOWANCE

Bank West has provided a general allowance for loan losses, which management estimates are contained within the portfolio on the balance sheet date. The general allowance is established against the loan portfolio in respect of the Bank West's core business lines where assessment of existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item by item basis. As Bank West has little operating history, it has utilized industry knowledge in establishing the level of general allowance. This allowance is reassessed monthly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends and management's current assessment of factors that may have affected the condition of the portfolio.

Capital Assets

Capital assets are recorded at cost and are being amortized over their estimated useful lives on a diminishing balance basis, except for leasehold improvements which are amortized on a straight line basis, commencing in the year of acquisition up to and excluding the year of disposal, at the annual rates detailed in Note 11. Amortization calculations commence in the month of acquisition.

Goodwill

Goodwill represents the excess of consideration paid over the fair value of net tangible and intangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is not amortized, but is tested for impairment at least annually by comparing the fair value of each reporting unit to its carrying value. When the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its fair value.

Intangible Assets

CORPORATE AND OTHER

Intangible assets in respect of purchased customer contracts and related customer relationships, brands, trademarks, and distribution channels are being amortized on a straight line basis over a 30 year period. These intangible assets are considered to have a finite life, and as such, are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable. Indefinite-life intangible assets are subject to impairment tests under Canadian GAAP on an annual basis and when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value.

BANK WEST

Intangible assets in respect of purchased customer contracts, related customer relationships, and distribution channels are being amortized on a straight line basis over a 5 year period. These intangible assets are considered to have a finite life, and as such, are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable.

Actuarial Liabilities

The Company has designated actuarial liabilities as held-for-trading, and measured them at fair value. All other liabilities have been designated as financial liabilities, measured at cost or amortized cost.

WESTERN LIFE

Actuarial liabilities are determined by the Appointed Actuary using the Canadian Asset Liability Method and represent the amount, which, together with future policy premiums and investment income, will be sufficient to meet future benefits and expenses.

REINSURANCE

Western Life follows the policy of underwriting and reinsuring contracts of insurance which, depending on the type of insurance, limits their liability to a maximum amount of $100 per life insured or $2.5 per month for any disability income claim. Reinsurance balances are reflected on the balance sheet and income statement on a net basis.

Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. All current new business is placed with registered reinsurers. No information has come to the management's attention indicating weakness or failure of any of its current reinsurers therefore no provision has been made in the accounts for doubtful collection.

Income Taxes

Income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes and is limited to the amount that is more likely than not to be realized. The tax rate substantively enacted when these temporary differences are anticipated to reverse is used to calculate future income taxes.

Convertible Subordinated Debentures

Convertible subordinated debentures are classified as other financial liabilities and are measured at cost or amortized cost. They are recorded in part as debt and in part as equity. The equity component represents the value attributed to the holder's option to convert the principal balance into common shares and is included in other paid in capital. When the debentures are converted to common shares, the equity component is reduced with a corresponding increase to share capital. The equity component of the debentures will be accreted over the term of the debentures through a charge to interest expense and an increase to the liability such that the principal amount due on maturity will be equal to the carrying amount of the debenture at that time.

Preferred Shares

Series 1 Preferred shares issued by the Company give the holder the right to require the Company to redeem the share at or after a particular date for a fixed or determinable amount, and are recorded as debt. Dividends paid and accrued on such shares are expensed and included in interest on long-term debt. All of these shares were redeemed in 2007.

Series 2 Preferred shares issued by the Company are convertible at the holder's option at any time into common shares at a fixed conversion price of $3.60 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the $3.60 conversion price. These shares have been recorded as equity. Dividends as declared are recorded against retained earnings.

Series 3 Preferred shares issued by the Company in 2007 are convertible at the holder's option at any time into common shares at a fixed conversion price of $7.25 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the $7.25 conversion price. These shares have been recorded as equity. Dividends as declared are recorded against retained earnings.

Series 4 Preferred shares issued by the Company in 2007 are convertible at the holder's option at any time into common shares at a fixed conversion price of $6.90 per share. These shares are redeemable by the Company only after the third anniversary and up to the fifth anniversary if the common shares are trading at or greater than 135% of the $6.90 conversion price. These shares have been recorded as equity. Dividends as declared are recorded against retained earnings.

Revenue Recognition

The Company has designated accounts receivable as loans and receivables, which are measured at cost or amortized cost, except for long term receivables which have been designated as available-for-sale and are measured at fair value.

Contingent profit commissions represent amounts received from insurance companies based on volumes and loss ratios of customer insurance policies written with the respective company and are recognized in the year earned.

WFG AGENCY NETWORK

Insurance commission revenue is recognized when the insurance policy sold is in effect and the amount of the commission earned is determinable. The Company maintains an allowance for estimated policy cancellations and commission returns by applying historical policy cancellations and endorsements to the current year revenue adjusted for acquisitions and dispositions.

BANK WEST

The Company records interest income earned on performing loans as interest income in the financial statements. Recognition of interest income ceases when a loan is classified as impaired.

WESTERN LIFE

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Pension Plans and Other Post Retirement Benefits

Western Life has established defined contribution pension plans for eligible qualifying employees. Contributions to these defined contribution pension plans are subject to certain vesting requirements and are a set percentage of the employee's annual income.

StockBased Compensation

The Company uses the fair value based method of accounting for stock based compensation applying to options issued for years beginning in 2003. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black Scholes valuation model. This value is recorded as a charge to net income, with an offsetting credit to contributed surplus, on a straight line basis over the vesting period. Any consideration paid by employees is credited to share capital when the option is exercised, and the corresponding amount of fair value previously recorded in contributed surplus is transferred to share capital.

Employee Share Ownership Plan

The matching contribution made by the Company under the employee share ownership plan is being amortized over the vesting period of the shares commencing in the month of contribution.

Interest Rate Swaps

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company has accounted for the swap as a cash flow hedge. The effective portion of the change in value of the hedging derivative is recognized in other comprehensive income, and any ineffective portion is recognized in net income. The amounts accumulated in other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Comparative Figures

Certain of the comparative figures presented have been reclassified to conform with the current year's presentation.

NOTE 3 CHANGES IN ACCOUNTING POLICIES

Financial Instruments, Hedges, and Comprehensive Income

Commencing January 1, 2007, the Company adopted new accounting standards required by the Canadian Institute of Chartered Accountants (CICA) relating to Financial Instruments - Recognition and Measurement – CICA Handbook section 3855, Financial Instruments – disclosure and presentation – CICA Handbook section 3861, Comprehensive Income – CICA Handbook section 1530, Hedges – CICA Handbook section 3865, Equity – CICA Handbook section 3251 and the other amendments to the CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. The Company has adopted and applied these standards in accordance with their transitional provisions. Recognition, derecognition and measurement policies followed in financial statements for prior periods have not been restated.

Under the new standards, all financial assets are classified as available-for-sale, held-for-trading, held-to-maturity, or loans and receivables, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. All financial instruments classified as available-for-sale or held-for-trading are required to be recognized at fair value on the consolidated balance sheet while financial instruments classified as loans and receivables or other continue to be measured at amortized cost using the effective interest rate method. Unrealized gains and losses on financial instruments that are classified as available-for-sale are reported in other comprehensive income and accumulated under a new balance sheet

category called accumulated other comprehensive income. When unrealized gains and losses become realized through sale or impairment, they are reclassified from accumulated other comprehensive income to investment income. Income earned on available-for-sale financial assets is recorded directly to investment income. Unrealized gains and losses on financial instruments that are classified as held-for-trading are recognized along with income earned directly in the consolidated statement of income as investment income – change in fair value of held-for-trading assets. Unrealized gains and losses on changes in fair value of held-for-trading assets are reflected in the consolidated statement of cash flows under non-cash items in a new category called unrealized gains and losses on held-for-trading assets. Fair values for financial instruments traded in an active market have been determined by the quoted market bid price. Fair values of non-publicly traded financial instruments have been determined using a discounted cash flow approach.

All derivative financial instruments are reported on the balance sheet at fair value. Changes in fair value are recognized in net income unless the derivative is part of a hedging relationship that qualifies as a cash flow hedge. In a cash flow hedging relationship, the change in fair value of the hedging derivative is recognized in other comprehensive income except for any ineffective portion which is recognized in net income as investment income. The amounts accumulated in accumulated other comprehensive income are reclassified to net income in periods in which net income is affected by the variability in the cash flows of the hedged item.

The Company is also required to identify derivatives embedded in other contracts unless the host contract is an insurance policy issued by the Company. Embedded derivatives identified are separated from the host contract and accounted for as a derivative if the following conditions are met: the host contract is not already measured at fair value with changes in fair value recognized in net income, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Where the Company is required to separate an embedded derivative from its host contract but is unable to measure the fair value of the embedded derivative separately, the entire combined contract is treated as a held-for-trading financial instrument measured at fair value with changes in fair value recognized in net income.

Under the new standards, the Company is required to present a new statement of comprehensive income and its components, as well as the components of accumulated other comprehensive income in its consolidated financial statements. Comprehensive income includes both net income and other comprehensive income (OCI). Major components of OCI include changes in unrealized gains and losses of financial assets classified as available-for-sale, and changes in fair value of effective cash flow hedges.

Impact:

On January 1, 2007, as a result of adopting the new standards, deferred realized gains and losses on sales of financial assets previously accounted for as life insurance portfolio investments, including gains and losses arising from sales of bonds, and stocks were recorded to retained earnings. Realized gains and losses on the sales of these assets occurring on or after January 1, 2007 are recorded in investment income.

Also on January 1, 2007, the Company designated bonds, stocks, and other invested assets supporting actuarial liabilities with a carrying value of $39,545 and fair value of $44,292 as held-for-trading. The difference between the fair value and carrying value of these investments, net of related tax expense was recorded to retained earnings on January 1, 2007. These assets were designated as such in order to match the measurement of the liabilities they are supporting. Corresponding changes in the values assigned to actuarial liabilities are supported, in part, by assets that are designated as held-for-trading. A significant portion of the changes in fair value of assets supporting actuarial liabilities is offset against the changed values assigned to actuarial liabilities recorded to retained earnings on transition, and net income after January 1, 2007.

The Company also designated bonds, stocks, and other invested assets not supporting actuarial liabilities with a carrying value of $17,179 and fair value of $18,043 as available-for-sale. The difference between the fair value and carrying value of these assets, net of related tax expense, was recorded to opening accumulated other comprehensive income (AOCI) as of January 1, 2007. When these differences are realized through asset sale or impairment, gains and losses and related tax expense previously recorded in accumulated other comprehensive income are reclassified to net income.

The Canadian government has recently announced its intention to align the current Canadian tax rules with the new financial reporting standards. However, detailed tax rules were not substantively enacted at the time of finalizing these consolidated financial statements and therefore the Company is unable to reliably estimate the impact of potential tax rule changes on future income tax calculations and opening retained earnings adjustments. As a result, the Company has assumed that the future level of taxes paid by the Company will be consistent with existing legislation.

The financial statement categories most significantly impacted by these new standards at January 1, 2007, are as follows:

Balance sheet category	Increase/(Decrease) in thousands	Explanation
Marketable securities	$ 5,611	Adjust carrying value to fair value.
Deferred gain on investments	$ (5,164)	Reclass deferred gains to opening retained earnings.
Actuarial liabilities	$ 9,323	Adjust in conjunction with fair value measurements of related assets.
Future income taxes payable	$ 315	Record changes in taxable temporary differences resulting from changes to the carrying value of assets and liabilities.
Accumulated Other comprehensive income	$ 696	After-tax impact of net unrealized gains on available-for-sale securities.
Provision for unpaid and unreported claims	$ 141	Adjust in conjunction with fair value measurements of assets.
Deferred charges	$ (641)	Reclass as an offset to the related debt obligation.
Long-term debt	$ (641)	Adjust to include reclassification of deferred charges.
Prepaid expenses	$ (2,723)	Reclass prepaid commissions as an offset to related mortgages and loans and customer deposits.
Mortgages and loans	$ 1,800	Adjust to include reclassification of prepaid commissions.
Customer deposits	$ (923)	Adjust to include reclassification of prepaid commissions.

The increase (decrease) to opening retained earnings is summarized below:

Balance sheet category	Increase/(Decrease) in thousands	Explanation
Retained earnings	$ 4,747	Increase due to recording held-for-trading assets at fair value.
Retained earnings	$ 5,164	Increase due to recognition of previously deferred net realized gains and other fair value adjustments.
Retained earnings	$ (9,464)	Decrease due to change in actuarial liabilities and other policy liabilities.
Retained earnings	$ (147)	Decrease due to income taxes.
Net Retained earnings adjustment	$ 300	Total increase in opening retained earnings, January 1, 2007.

Future Impact of Recently Issued Accounting Standards

Capital Disclosures and Financial Instruments – Disclosure and Presentation

On January 1, 2008, the Company will adopt three new accounting standards required by the Canadian Institute of Chartered Accountants (CICA): CICA Handbook Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments Disclosures, and Section 3863 – Financial Instruments Presentation. Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital; information about what the entity regards as capital; whether the entity has complied with any capital requirements; and the consequences of not complying with these capital requirements. Section 3862 and 3863 replace Handbook Section 3861 – Financial Instruments Disclosure and Presentation. Section 3863 carries forward unchanged the related presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company will apply the new disclosures in its 2008 Consolidated Financial Statements. The Company does not expect the adoption of these accounting standards to have a material impact on the Consolidated Financial Statements.

NOTE 4 BUSINESS ACQUISITIONS

All business acquisitions are accounted for using the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase. The allocation of purchase price is based on consideration paid and acquisition costs incurred up to the end of the current reporting period, and may be adjusted based on the outcome of contingent consideration and future acquisition related costs.

December 31, 2007

In 2007, the Company acquired all of the outstanding shares of the following insurance brokerage businesses: the Sawchuk Group (acquired 1/1/07) which consists of Pomeroy Insurance Services Ltd., J.W. Baker Insurance Agencies Inc., Northland Insurance Services Ltd., and Geer and Spice Insurance Agencies Ltd. Additional acquisitions include Sawchuk Financial Services Inc., McDonald Bychkowski and Holland Ltd., 411248 B.C. Ltd. (1/1/07), Nielsen and Wolfe Agencies Ltd. (4/1/07), Blonde and Blonde Ltd. (7/1/07), 601369 Alberta Ltd. (7/1/07), Younger and Holmes Limited, 999416 Alberta Ltd., 999400 Alberta Ltd., Fimac Insurance Ltd. (10/1/07), Oncescu Agencies Ltd. (11/1/07), and Early Insurance Ltd. (12/1/07). The Company also acquired the remaining 75% outstanding shares of Northcountry Insurance Agencies Ltd. (1/1/07), certain assets of Butler Byers Insurance Ltd. (7/1/07), and the outstanding shares of Ubiquity Bank of Canada (10/1/07).

December 31, 2006

During the year ended December 31, 2006, the Company acquired all of the outstanding shares of the following insurance brokerage businesses: Golden Eagle Agencies Ltd., 606065 Alberta Ltd., 1176496 Alberta Ltd., 1194595 Alberta Ltd., Willow Creek Insurance (1990) Ltd., and Thomsen Fisher Insurance Ltd.

	Insurance Brokerages	Ubiquity Bank of Canada	Total 2007	Total 2006
Net assets acquired in business acquisitions:				
Cash and cash equivalents	$ 1,774	$ -	$ 1,774	$ 1,775
Other investments	502	7,776	8,278	219
Other assets	2,904	811	3,715	1,519
Capital assets	695	-	695	536
Mortgages and Loan	-	88,639	88,639	-
Intangible assets	12,237	1,694	13,931	4,118
Goodwill	32,573	3,115	35,688	9,398
Accounts payable and accrued liabilities	(4,617)	(890)	(5,507)	(3,714)
Provision for unpaid claims	(73)	-	(73)	(49)
Corporate taxes payable	(167)	-	(167)	(17)
Customer deposits	-	(83,334)	(83,334)	-
Future taxes payable	(2,308)	(338)	(2,646)	(796)
	43,520	17,473	60,993	12,989
Cash and cash equivalents acquired	(1,774)	-	(1,774)	(1,775)
Shares issued	(4,250)	-	(4,250)	-
Consideration:	$ 37,496	$ 17,473	$ 54,969	$ 11,214

The allocation between goodwill and intangibles is subject to final valuation.

Of the total amount assigned to goodwill and intangibles, $728 (2006 –$357) is deductible for tax purposes. Goodwill in the amounts of $32,573 (2006 – $9,398) and $3,115 have been attributed to the WFG Agency Network and Bank West segments (Note 26).

NOTE 5 MARKETABLE SECURITIES

Securities are composed of Canadian Federal Government and Provincial Government treasury bills, acceptances of Canadian Schedule 1 banks and Canadian corporate term preferred and fixed/floating preferred shares. Securities are purchased for liquidity and longer term investment, with the intention of holding to maturity. For 2007, carrying values are equal to their fair values due to the January 1, 2007 adoption of new accounting standards (Note 3).

2007

	Within 1 year	Over 1 year	Total Held For Trading Securities	Within 1 year	Over 1 year	Total Available For Sale Securities
Fixed income securities						
Canadian government	$ -	$ 46,886	$ 46,886	$ 22,967	$14,011	$ 36,978
Corporate notes	-	-	-	4,465	6,011	10,476
Preferred shares	-	-	-	-	3,650	3,650
Total	$ -	$ 46,886	$ 46,886	$ 27,432	$23,672	$ 51,104

Management reviewed currently available information for Available for Sale securities with unrealized losses at December 31, 2007 totaling $268 (pre tax) and determined that the impairment was temporary in nature.

2006

	Within 1 year	Over 1 year	Total Carrying Value	Estimated Market
Fixed income securities				
Canadian government	$ 14,060	$ 47,618	$ 61,678	$ 66,579
Bankers' acceptances	9,975	-	9,975	9,974
Preferred shares	-	2,123	2,123	2,226
Other	5,145	6,322	11,467	12,118
Total	$ 29,180	$ 56,063	$ 85,243	$ 90,897

At December 31, 2007, the Bank had pledged Government of Canada Treasury Bill in the amount of $583 (2006 – $562) in support of a Clearing Settlement line of credit of $500 (2006 – $500). The restricted Treasury Bill is included in total securities and held in safekeeping by a major Canadian investment dealer.

NOTE 6 ACCOUNTS RECEIVABLE

The Company has recorded contingent commissions receivable of $251 (2006 – $271) with respect to policies written through Lloyds of London. These amounts may not be received for up to five years from the year in which the policy is written. Actual amounts received may vary based on actual claims made and administrative expenses incurred.

NOTE 7 DEFERRED CHARGES

	Cost	Accumulated Amortization	Net Book Value
2007			
Other development costs	$ 88	$ 57	$ 31
2006			
Financing costs	$ 2,491	$ 1,850	$ 641
Other development costs	88	15	73
	$ 2,579	$ 1,865	$ 714

NOTE 8 OTHER ASSETS

	2007	2006
Loan to a company controlled by the chief executive officer of the Company. Interest is repayable annually at 4% per annum. Loan is secured by 350,000 shares of the Company. Market value of the security as at December 31, 2006 was $1,418. Due September, 2007. Repaid in 2007.	$ -	$ 560
Note receivable with respect to the sale of certain insurance brokerage assets. Interest payable annually 4% per annum. Due February, 2008.	199	199
Note receivable with respect the sale of certain insurance brokerage assets. Repayable at $191 per annum including interest at 4% per annum. The promissory note is secured by a general security agreement covering all of the assets of Platinum Insurance Inc., a hypothecation of the shares of Platinum Insurance Inc., and a corporate guarantee. Due April 2015.	1290	1476
	$ 1489	$ 2235

NOTE 9 EQUITY INVESTMENTS

		2007		2006
Investment in Jennings Capital Inc., a corporation in which a director holds an interest. Notes receivable are non interest bearing and due on demand. Repayment of these notes has been postponed and are subordinated to all other debt of the corporation. The Company has indicated it will not request repayment within the next fiscal year. The fair value of these notes approximates carrying value.	$	**1,530**	$	1,530
1,692 (2006 – 2,317) common shares representing 27.45 % (2006 – 35.67%) of the outstanding common shares.		**6,696**		8,443
5 preferred shares, cumulative dividends at 4% per annum.		**500**		500
Investment in Falkins Insurance Agencies Ltd. .758 common voting, .758 common non-voting and .758 preferred non-voting shares representing 20% of the outstanding shares of the corporation. The excess of $ 1,996 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill.		**2,669**		2,561
Investment in Harvard Ventures Ltd 1,575 common shares representing 50% of the outstanding common shares of the corporation. An excess of $ 130 of the Company's interest in the underlying net book value of the assets exists compared to the purchase price.		**1,991**		1,973
Investment in Northcountry Insurance Agencies Ltd. 2,500 common shares representing 25% of the outstanding common shares of the corporation at December 31, 2006. The excess of $2,072 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill. In 2007 the remaining 75% of the outstanding common shares of the corporation were acquired and the investment has been consolidated.		**-**		2,802
Investment in Hayhurst Elias Dudeck Inc 2,835 common shares representing 25% of the outstanding common shares of the corporation. The excess of $ 5,704 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill. In 2007, contingent consideration pursuant to the share purchase agreement was accrued.		**12,377**		5,692
IInvestment in Archibald Clarke & Defieux (Prince Rupert) Insurance Services Ltd. 30 common shares and 30,937.50 preferred shares representing 30% of the outstanding shares of the corporation. The excess of $337 of the Company's purchase price over its interest in the underlying net book value of the assets has been allocated to goodwill.		**337**		-
	$	**26,100**	$	23,501

NOTE 10 MORTGAGES AND LOANS

2007

	Residential mortgages – insured	Residential mortgages – uninsured	Automobile and recreational vehicle financing	Farm & Commercial Mortgages	Premium financing	Other loans and leases	Total
Residential	$ 24,502	$ 52,055	$ -	$ -	$ -	$ -	$ 76,557
Personal	-	-	101,831	-	5,113	27,040	133,984
Business	-	-	-	36,435	16,581	23,962	76,978
Commissions							2,636
Allowance for credit losses	(4)	(171)	(992)	(127)	(101)	(558)	(1,953)
							$288,202
Portion maturing in the next year based on contractual terms							(75,594)
							$212,608

2006

	Residential mortgages – insured	Residential mortgages – uninsured	Automobile and recreational vehicle financing	Farm & Commercial Mortgages	Premium financing	Other loans and leases	Total
Residential	$ 11,214	$ 21,866	$ -	$ -	$ -	$ -	$ 33,080
Personal	-	-	66,589	-	5,309	14,377	86,275
Business	-	-	-	7,736	11,470	11,713	30,919
Allowance for credit losses	(18)	(124)	(712)	(58)	(84)	(227)	(1,223)
							$ 149,051
Portion maturing in the next year based on contractual terms							(40,576)
							$ 108,475

NOTE 11 CAPITAL ASSETS

2007

	Rate	Cost	Accumulated Amortization	Net Book Value
Land		$ 758	-	$ 758
Buildings	5%	1,036	217	819
Leasehold Improvements	10%	5,666	1,678	3,988
Furniture and equipment	20%	4,595	2,142	2,453
Computer hardware and software	20%	7,946	4,031	3,915
Leased assets	30%	923	827	96
Automotive	30%	190	78	112
		$ 21,114	$ 8,973	$ 12,141

2006

	Rate	Cost	Accumulated Amortization	Net Book Value
Land		$ 746	-	$ 746
Buildings	5%	896	178	718
Leasehold Improvements	10%	3,792	1,238	2,554
Furniture and equipment	20%	3,640	1,674	1,966
Computer hardware and software	20%	6,167	3,538	2,629
Leased assets	30%	923	786	137
Automotive	30%	167	73	94
		$ 16,331	$ 7,487	$ 8,844

NOTE 12 INTANGIBLE ASSETS

2007

	Cost	Accumulated Amortization	Net Book Value	Net Additions
Brands, trade styles, distributions channels and customer contracts and relationships	$ 28,820	$ 2,096	$ 26,724	$ 13,924
Bank West Letters of Patent of Incorporation	442	-	442	-
	$ 29,262	$ 2,096	$ 27,166	$ 13,924

2006

	Cost	Accumulated Amortization	Net Book Value	Net Additions
Brands, trade styles, distributions channels and customer contracts and relationships	$ 14,896	$ 1,163	$ 13,733	$ 4,117
Bank West Letters of Patent of Incorporation	442	-	442	-
	$ 15,338	$ 1,163	$ 14,175	$ 4,117

NOTE 13 GOODWILL

	2007	2006
Balance, beginning of year	**$ 59,565**	$ 50,164
Goodwill acquired during the year	**38,600**	9,401
Balance, end of year	**$ 98,165**	$ 59,565

NOTE 14 POLICY LIABILITIES

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial reserves are adequate to pay future benefits, the actuary is required to include in each assumption a range of allowable margins prescribed by the Canadian Institute of Actuaries.

Western Life maintains margins near the middle of the allowable range. Lower margins could be justified in some circumstances, but the Company prefers to use more conservative estimates. The Company uses a higher margin for expense. In total, our margin comprises 15% (2006 – 15%) of our policy liabilities of $6.6 million. (2006 – $5.2 million).

Policy Liabilities are comprised of:

	2007	2006
Actuarial liabilities	$ 38,042	$ 34,754
Provision for unpaid and unreported claims	8,653	6,637
Total policy liabilities	$ 46,695	$ 41,391

Actuarial liabilities are comprised of the following amounts for each significant line of business:

	2007	2006
Individual Life	$ 32,599	$ 29,640
Group Life	1,538	1,302
Annuities	1,064	1,329
Accident and Sickness	2,841	2,483
	$ 38,042	$ 34,754

The actuarial liabilities have been determined by the Appointed Actuary using accepted actuarial practice involving the use of assumptions for such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of withdrawal. The process of determining actuarial liabilities necessarily involves the risk that actual results may vary from assumed results. The risk varies in proportion to the length of the period covered by each assumption and the potential volatility of actual results.

Each assumption is determined based on expected experience plus a margin. The margin provides for uncertainty in establishing expected experience and to allow for possible deterioration in experience. The additional reserve resulting from using assumptions which include these margins is referred to as the provision for adverse deviations. The provision will be included in future income to the extent it is not required to cover adverse experience.

The nature and method of determining the significant assumptions made in the computation of actuarial liabilities are described below.

Mortality and morbidity rates – Estimates of future mortality and morbidity rates are based on the Company's and industry experience over extended periods.

Investment yields – Assumptions regarding future investment yields are based on current yield rates, adjusted to reflect uncertainties associated with projections of future interest rates.

Expense levels – Future expense assumptions are based on the Company's past experience and projections for the future.

Rates of withdrawal – Policyholders may lapse their policies by discontinuing premium payments or surrender their policies for the cash surrender value. Estimates of future rates of withdrawal are based on previous Company experience augmented by industry experience.

Assets supporting actuarial liabilities

2007

	Bonds	Shares	Other	Total
Balance Sheet Value				
Non-participating				
Individual life	$ 34,657	$ -	$ 697	$ 35,354
Group Life	1,615	-	-	1,615
Individual Annuity	1,117	-	-	1,117
Accident & Sicknes	2,983	-	-	2,983
Claim Liabilities	6,636	-	928	7,564
Other Including				
Capital Surplus	3,512	12,124	8,952	24,588
Total Balance Sheet				
Value	50,520	12,124	10,577	73,221
Total Market Value	$ 50,520	$ 12,124	$ 10,577	$ 73,221

2006

	Bonds	Shares	Other	Total
Balance Sheet Value				
Non-participating				
Individual life	$ 26,516	-	$ 750	$ 27,266
Group Life	1,240	-	-	1,240
Individual Annuity	1,205	-	-	1,205
Accident & Sickness	2,341	-	-	2,341
Claim Liabilities	2,833	-	4,159	6,992
Other Including				
Capital Surplus	11,617	6,322	4,968	22,907
Total Balance Sheet				
Value	45,752	6,322	9,877	61,951
Total Market Value	$ 50,655	$ 6,973	$ 9,877	$ 67,505

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of assets are essentially offset by changes in the fair value of actuarial liabilities.

	2007	2006
Change in actuarial liabilities		
Balance, beginning of period	**$ 34,754**	$ 33,507
Normal change	**(58,49)**	988
Transitional adjustments (Note 3)	**9,323**	-
Change in actuarial assumptions	**(1,86)**	259
Balance, end of year	**$ 38,042**	$ 34,754

Reinsurance

Western Life follows the policy of underwriting and reinsuring contracts of insurance which, depending on the type of insurance, limits their liability to a maximum amount of $100,000 per life insured or $2,500 per month for any disability income claim. Western Life reflects reinsurance balances on the balance sheet and income statements on a net basis. Western Life has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. All current new business is placed with registered reinsurers.

NOTE 15 CUSTOMER DEPOSITS

Customer deposits are comprised of demand deposits and guaranteed investment certificates ("GIC") denominated in Canadian currency, with fixed maturities not exceeding 5 years from date of deposit. Canada Deposit Insurance Corporation ("CDIC") insures these deposits to the extent of $100 (2006 – $100) per Canadian resident. The uninsured portion is 1.84% (2006 – 0.35%) of the total portfolio.

2007

Terms to maturity	1 yr & under	1-2 years	2-3 years	3-4 years	4-5 years	Total
Businesses	$ 1,338	$ 1,087	$ 1,034	$ 35	$ 407	$ 3,901
Individuals	65,911	40,341	62,358	69,868	42,667	281,145
	67,249	41,428	63,392	69,903	43,074	285,046
Commissions						(1,747)
						$ 283,299

2006

Terms to maturity	1 yr & under	1-2 years	2-3 years	3-4 years	4-5 years	Total
Businesses	$ 1,837	$ 789	$ 1,100	$ 1,094	$ 116	$ 4,936
Individuals	40,184	18,539	21,296	17,168	44,995	142,182
	$ 42,021	$ 19,328	$ 22,396	$ 18,262	$ 45,111	$ 147,118

NOTE 16 LONGTERM DEBT

	2007	2006
Bank loans provided by a Canadian chartered bank, authorized to a maximum of $30,543, repayable at $263 per month plus interest, at bank prime rate plus .50% per annum. The effective rate of interest at December 31, 2007 was 8.0% (2006 – 6.50%).	$ 19,567	$ 1,083
Bank loan with interest only payable monthly. The Company has entered into an interest rate swap agreement (Note 25), whereby the interest rate on this bank loan has been fixed at a rate of 6.225% (2006 – 6.225%) per annum until May, 2008. Repayment of the above bank loans is dependent upon annual renewal. If the bank elects not to renew, all amounts will be repayable over two years. Collateral provided for the above bank loans, as well as the overdraft lending facility and an operating lending facility consists of a $50 million debenture charging all of the Company's assets including a registered first charge over all real property, a general assignment of book debts, a pledge of all shares of each subsidiary excluding Bank West and Western Life Assurance Co., an unlimited guarantee from each subsidiary excluding Bank West and Western Life Assurance Co. each supported with a general security agreement and a general assignment of book debts.	7,865	8,000
$5,000 subordinated convertible redeemable debenture, interest payable semiannually at 4% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.25 per share. Due January, 2010. As this debenture includes an equity component related to the holder's conversion option, a portion is recorded as other paid in capital.	-	4,986
$10,000 subordinated convertible redeemable debenture, interest payable semiannually at 4% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.00 per share. At any time after March 31, 2001, the Company may redeem the debentures at par if the shares of the Company have traded at $3.90 or on maturity the Company may repay the debenture by issuing shares, provided that the ratio of earnings before interest, taxes, depreciation and amortization to the combined principal and interest payments for the quarter immediately preceding the maturity date is 1.25 to 1. Due March 31, 2009. As this debenture includes an equity component related to the holder's conversion option, a portion is recorded as other paid in capital.	4,945	9,977
Unsecured subordinated notes, interest payable semi annually at 12% per annum. Redeemable by the company after March 1, 2010.	951	1,000
Finance contracts repayable at $1.9 (2006 – $1.6) per month including interest at 0% – 6.79% per annum. Security provided consists of certain automotive assets.	61	18
1 in 2006 preferred shares, Series 1, with a par value of $1.0, issued to a company controlled by a director, redeemable at par by the holder at 20% annually, cumulative dividends at 4% per annum.	-	100
	$ 33,389	$ 25,164

Estimated principal repayments of longterm debt, assuming renewal on the same or similar terms, in each of the next five years are as follows:

2008	$ 16,174
2009	$ 3,180
2010	$ 4,173
2011	$ 3,157
2012	$ 3,157

NOTE 17 SHARE CAPITAL

Authorized shares

Unlimited number of common, without nominal or par value
Unlimited number of first preferred, issuable in series
Unlimited number of second preferred

Escrowed Shares

Common shares issued as consideration for business acquisitions are subject to certain escrow provisions that restrict their trading. As at December 31, 2007, 315 (December 31, 2006, 473) shares were being held in escrow.

	2007		2006	
Issued Common Shares	Number	Amount	Number	Amount
Opening balance:	42,900	$ 96,525	30,644	$ 59,676
Common shares issued:				
Pursuant to stock options exercised	266	916	235	565
For cash pursuant to prospectus offering	-	-	7,590	26,565
In conjunction with a business acquisition	1,298	4,250	-	-
On conversion of preferred shares	83	300	41	150
On conversion of debentures	3,205	10,101	4,390	11,028
Costs related to share issuance:				
Prospectus offering costs				
(net of tax adjustment of $51; 2006 – $574)	-	41	-	(1,459)
End of year Balance, December 31:	47,752	$ 112,133	42,900	$ 96,525
Issued First Preferred Series 1 Shares, recorded as long term debt (Note 16)	Number	Amount	Number	Amount
Opening balance:	.1	$ 100	.2	$ 200
Cancelled on redemption	(.1)	(100)	(.1)	(100)
End of year Balance, December 31:	-	$ -	.1	$100
Issued First Preferred Series 2 Shares , recorded as share capital	Number	Amount	Number	Amount
Opening balance:	148	$ 14,082	-	$ -
Issued for cash	-	-	150	15,000
Costs of share issue (net of tax adjustment of $25; 2006 – $302)	-	25	-	(768)
Converted to Common Shares	(3)	(300)	(2)	(150)
End of year Balance, December 31:	145	$ 13,807	148	$ 14,082
Issued First Preferred Series 3 Shares, recorded as share capital	Number	Amount	Number	Amount
Issued for cash	250	25,000	-	-
Costs of share issue (net of tax benefit of $485)	-	(1210)	-	-
End of year Balance, December 31:	250	$ 23,790	-	$ -
Issued First Preferred Series 4 Shares, recorded as share capital	Number	Amount	Number	Amount
Issued for cash	200	20,000	-	-
Costs of share issue (net of tax benefit of $416)	-	(1,037)	-	-
End of year Balance, December 31:	200	$ 18,963	-	$ -
TOTAL SHARE CAPITAL		Amount		Amount
End of year Balance, December 31:		$ 168,693		$ 110,607

NOTE 18 STOCK BASED COMPENSATION

Stock Options

The Company has a fixed stock option plan under which it may grant options to directors, officers, employees and consultants for up to 10% of the issued and outstanding shares to an aggregate maximum of 1,600 common shares. The option price is equivalent to the share market price on the date granted.

	2007		2006	
	Share Options	**Weighted Average Exercise Price**	Share Opt ions	Weighted Average Exercise Price
Outstanding, beginning of year	**513**	**$ 2.65**	680	$ 2.54
Granted	**73**	**4.90**	73	3.02
Exercised	**(266)**	**2.67**	(235)	2.41
Cancelled	-	-	(5)	3.00
Outstanding, end of year	**320**	**3.15**	513	2.65
Exercisable, end of year	**247**	**2.64**	350	2.62
Available for grant, end of year	**1,280**		1,087	

The following table summarizes information about fixed stock options outstanding at December 31, 2007.

Exercise Price Range	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.00 – $ 2.99	194	1.57 years	$2.53	194	$2.54
$ 3.00 – $ 3.99	53	3.42 years	$3.02	53	$3.02
$ 4.00 – $ 4.90	73	4.37 years	$4.90	-	$4.90
	320			247	

During the year, the Company granted 73 (2006 – 73) options to purchase common shares at an exercise price of $ 4.90 (2006 – $ 3.02), which was equal to or greater than the market value of the shares on the date granted. The following table summarizes information about stock options granted during the year.

Number granted	Market price	Exercise price	Fair value
73	$ 4.89	$ 4.90	$ 1.68

The Company has recorded $132 (2006 – $147) as compensation expense and contributed surplus, in respect of options vested during the year, based on a fair value determination estimated using the Black Scholes option pricing model.

Under the fair value method, the value of stock options at the grant date that have vested during the year are estimated using the Black Scholes option pricing model using the following assumptions:

	2007	2006
Expected option life (years)	**3-5**	3-5
Risk free rate	**3.90 % 4.24 %**	3.53 % 4.24 %
Expected stock volatility	**27%**	30%
Dividend yield	**1%**	0%

Employee Share Ownership Plan

The Company participates in an Employee Share Ownership Plan which enables substantially all employees to purchase common stock of the Company. Eligible employees make personal contributions to the plan up to 5% of their earnings which are matched by the Company. Personal and Company matching contributions are used to acquire common stock in the Company at market prices. All acquisitions are for shares currently issued and there is no commitment under the plan for the Company to issue additional shares.

NOTE 19 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2007	2006
Dividends received	**$ 1,700**	$ 243
Interest paid	**10,219**	5,767
Income taxes paid	**4,719**	2,984
Dividends paid - preferred shares	**1,172**	519
Dividends paid - common shares	**902**	-

NOTE 20 INCOME TAXES

	2007	2006
Future income taxes	$ 1,343	$ 127
Current income taxes	2,383	1,863
	$ 3,726	$ 1,990

The Company's actual income tax expense differs from the expected income tax expense as follows:

	%	2007	%	2006
Expected income tax expense	33	$ 5,327	32	$ 3,242
Nondeductible expenses	2	344	2	174
Nontaxable income	(9)	(1,382)	(9)	(867)
Income tax rate and other adjustments	(3)	(562)	(5)	(559)
Total income tax expense	23	$ 3,726	20	$ 1,990

The major components of the future income tax asset and future income tax liability using the combined federal and provincial effective tax rates at the anticipated average rate reversal of 28% (2006 – 30%) are as follows:

Future income tax asset:	2007	2006
Capital assets	$ (45)	$ (50)
Eligible capital	345	8
Tax loss carryforwards	(824)	(843)
Loan loss provision	(60)	(386)
	(584)	($1,271)

Future income tax liability:	2007	2006
Capital assets and other assets	$ 2,239	$ 961
Goodwill and intangibles	4,885	2,958
Deferred charges and share issue costs	(1,541)	(1,208)
Tax loss carryforwards	(247)	(266)
Allowance for credit losses	(94)	(106)
Actuarial liabilities	(1,216)	516
Deferred gains (losses)	1,248	(65)
	$ 5,274	$ 2,790

NOTE 21 EARNINGS PER SHARE

December 31, 2007

	Income	Shares	Per share
Earnings per share from continuing operations			
Net income	$ 12,213		
Preferred share dividends	(1,656)		
Net income available to common shareholders	10,557		
Basic earnings per share	$ 10,557	44,827	$ 0.24
Effect of dilutive securities			
Stock options	-	129	
Convertible debentures	384	4,246	
Diluted earnings per share	$ 10,941	49,202	$ 0.22

December 31, 2006

	Income	Shares	Per share
Earnings per share from continuing operations			
Net income	$ 7,988		
Preferred share dividends	(511)		
Net income available to common shareholders	7,477		
Basic earnings per share	$ 7,477	33,673	$ 0.22
Effect of dilutive securities			
Stock options		86	
Convertible debentures	746	6,990	
Diluted earnings per share	$ 8,223	40,749	$ 0.20

At December 31, 2007, Convertible redeemable series 2, 3, and 4 preferred shares were not included in the computation of diluted earnings per share because the impact was anti-dilutive.

At December 31, 2006, Convertible redeemable series 2 preferred shares were not included in the computation of diluted earnings per share because the impact was anti-dilutive.

NOTE 22 COMMITMENTS

In the normal course of business Bank West issues commitments to extend credit to customers which are not recorded in the financial statements. These commitments which are undrawn at yearend are in the form of loans for specific amounts and maturities subject to meeting certain conditions and have no stated expiry dates. The maximum potential amount of future payments under these commitments is $7,213 (2006 – $5,617).

Under the terms of the investment agreements with Hayhurst Elias Dudek Inc. (Note 9), and Archibald Clarke and Defieux (Prince Rupert) Insurance Serivces Ltd., and the purchase agreement with the Sawchuk Group additional consideration may be granted contingent on earnings levels in the future. The Sawchuk Group consists of Pomeroy Insurance Services Ltd., J.W. Baker Insurance Agencies Inc., Northland Insurance Services Ltd., and Geer and Spice Insurance Agencies Ltd. The amount and outcome of contingent consideration cannot be reasonably estimated and has not been recognized in the financial statements.

Under the terms of property leases expiring between 2008 and 2012, the Company is committed to the following annual lease payments:

2008	$ 3,351
2009	$ 2,966
2010	$ 2,493
2011	$ 2,238
2012	$ 1,995

NOTE 23 RELATED PARTY TRANSACTIONS

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice and recorded at the exchange amount.

- Interest of $34 (2006 – $8) was paid to Jennings Capital Inc., an affiliated Company in which a director holds an interest, for investment margin loan activity throughout the year.
- Dividend income on preferred shares of $1,847 (2006 – $396) and income from equity investments of $558 (2006 – $1,492) were recorded with respect to our investment in Jennings Capital Inc.
- Underwriting fees of $540 (2006 – $909) were paid to Jennings Capital Inc., in connection with their participation in our Preferred Share Offerings (2006 – Common Share Offering).
- Commission income of $96 (2006 – $13) and fees for computer service of $67 (2006 – $70) were received for services provided to Jennings Capital Inc.
- Dividends on preferred shares in the amount of $2 (2006 – $5) were paid to a company controlled by a director.

Other transactions and balances outstanding are included in Other Assets as disclosed in Note 8.

NOTE 24 SUBSEQUENT EVENTS

In 2007, the Company entered into a memorandum of understanding and term sheet with respect to the acquisition of the Insurance brokerage business of Southern Insurance Management Inc. in Lethbridge, Alberta. This acquisition was finalized in January, 2008 and was financed using the Company's senior credit facility.

In January 2008, the Company received notice from an equity investee pursuant to a shareholders agreement that additional voting shares will be sold to the Company. This increase in equity ownership is expected to be completed by April 30, 2008.

The Company announced on February 28, 2008 a normal course issuer bid commencing March 3, 2008 and ending upon the earliest of the completion of the bid and March 2, 2009. Under the program, Western Financial Group Inc. may purchase, for cancellation, up to 2,387,642 common shares, representing approximately 5% of the amount outstanding on February 26, 2008.

NOTE 25 FAIR VALUE OF FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to the immediate or shortterm maturity of these financial instruments. The fair value of marketable securities has been estimated based on market values of the securities as at December 31. (Note 5)

The fair value of fixed rate mortgages and loans has been estimated by discounting the expected future cash flows at market rates for loans with similar terms and risks. For floating rates loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market. Fair value of mortgages and loans as at December 31, 2007 is estimated to be $246,355 (2006 – $153,031).

The fair value of customer deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks and is estimated to be $253,752 as at December 31, 2007 (2006 – $ 143,674).

Management considers that no events have occurred subsequent to the arrangement of the credit agreement with its bank that would indicate that the fair value of bank loans differs substantially from their carrying value.

The fair value of the $4,945 convertible debentures are not determinable due to the existence of business development agreements with the holders that would have the effect of reducing the effective rate.

The fair value of actuarial liabilities and provisions for unpaid and unreported claims are as disclosed in Note 14.

The fair value of preferred shares is based on market values for these instruments.

Credit Risk

The Company is exposed to credit risk with respect to its marketable securities, accounts receivable which includes reinsurance recoverable and mortgages and loans receivable.

Restricting both the type and the term of investments mitigates marketable securities risk. The Company only invests in Canadian corporations and institutions with large capitalization and acceptable liquidity to reduce credit risk.

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics arising from factors such as economic or geographic regions or similar industries. The Company mitigates this risk through diversification requirements.

Credit risk related to reinsurance contracts also exist. Maximum benefit amounts limits per insured (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company has agreements with a number of reinsurers and evaluates the ratings of reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The following table summarizes the balances outstanding from reinsurers as at December 31, 2007, by risk rating:

Credit Rating	Net Reinsurance Recoverable
A -	$ 1,200
A+	$ 109

Accounts receivable risk is minimized by the Company's large customer base, which covers all consumer and business sectors in British Columbia, Saskatchewan and Alberta. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

Credit risk with respect to mortgages and loans is mitigated through conservative underwriting policies and charges against real property that reduce the Company's risk exposure on these loans. Certain of the residential mortgages are insured through Canada Mortgage and Housing Corporation.

Cash flow Risk

The following table summarizes the expected timing of cash flows arising from insurance obligations as at December 31, 2007:

	Total	0 – 4 years	5 – 9 years	Greater than 10 years
Actuarial liabilities	$ 51,300	$ 6,837	$ 10,999	$ 33,464
Less:				
Reinsurance recoverable	(13,258)	(1,111)	(2,762)	(9,385)
Net actuarial liabilties	$ 38,042	$ 5,726	$ 8,237	$ 24,079

See Note 22 for cash flow commitments related to property leases.

Interest Rate Risk

The Company entered into an interest rate swap agreement, expiring in May 2008, to manage the interest rate risk on a portion of its bank debt. Under the terms of the agreement, the variable rate of interest on the underlying debt instrument is swapped for a fixed rate of 6.225% (2006 – 6.225%) per annum. The counter-party to this agreement is a large Canadian financial institution, which presents minimal credit risk. The actual amount of gain or loss on this hedge will fluctuate with current interest rates. As at December 31, 2007, the actual interest rate on the underlying debt instrument was 5.935% (2006 – 5.705%) per annum. Assuming this interest rate was in effect for the term of the agreement, the Company would recognize an annual loss of $23 as interest expense.

For Western Life, the actuarial assumption most susceptible to change in the short run is future investment returns. Under the prescribed valuation method, CALM, alternate

interest rate scenarios are tested producing alternate policy liabilities for Individual Life insurance. The liability that is held is based on the interest rate scenario that produces the highest liability. The sensitivity to interest rate changes is, therefore, reflected in the development of the liabilities.

Effective January 1, 2007, as a result of adopting new accounting standards described in Note 3, the values of held-for-trading bonds and actuarial liabilities are affected similarly by changes in interest rates. The estimated impact of a 1% increase in interest rates resulting in decreased market value of held-for-trading bonds would correspondingly decrease actuarial liabilities, resulting in a nil net impact on net income. Conversely the estimated impact of a 1% decrease in interest rates resulting in increased market value of held-for-trading bonds would result in increased actuarial liabilities resulting in a nil net impact on net income.

The Company is exposed to interest rate risk arising from fluctuations in interest rates on certain of its bank term loans payable. The Company is also exposed to interest rate risk arising from the mismatch, or gap, between the assets and liabilities of Bank West that are scheduled to mature or re-price on particular dates. The Bank uses gap analysis to measure this risk. The gaps which existed at December 31 based on the maturity date of interest rate sensitive instruments are detailed as follows:

December 31, 2007

	Floating Rate	Less than 3 months	3 months - 1 year	Total within 1 year	Over 1 year to 5 years	Non-interest rate sensitive	Total
ASSETS:							
Cash Resources	6,051	-	-	6,051	-	-	6,051
Securities	-	22,431	567	22,998	6,011	(1)	29,008
Loans	23,275	11,315	41,003	75,593	212,920	(1,039)	287,474
Other assets	-	-	-	-	-	8,004	8,004
Total	29,326	33,746	41,570	104,642	218,931	6,964	330,537
LIABILITIES & EQUITY:							
Deposits	-	16,277	51,126	67,403	218,662	(2,903)	283,162
Other Liabilities	-	-	-	-	12,000	10,912	22,912
Shareholder's Equity	-	-	-	-	-	24,462	24,462
Total	-	16,277	51,126	67,403	230,662	32,471	330,536
Interest-rate Sensitive Gap	29,326	17,469	(9,556)	37,239	(11,731)	(25,508)	-
Cumulative Gap	29,326	46,795	37,239	-	25,508	-	-
Cumulative gap as a percentage of total assets	9%	14%	11%	-	8%	-	-

December 31, 2006

	Floating Rate	Less than 3 months	3 months - 1 year	Total within 1 year	Over 1 year to 5 years	Non-interest rate sensitive	Total
ASSETS:							
Cash Resources	$ 2,549	$ -	$ -	$ 2,549	$ -	$ -	$ 2,549
Securities	-	14,435	2,524	16,959	-	-	16,959
Loans	11,630	7,082	21,764	40,476	108,949	(1,223)	148,202
Other assets	-	-	-	-	-	5,118	5,118
Total	$ 14,179	$ 21,517	$ 24,288	$ 59,984	$ 108,949	$ 3,895	$ 172,828

LIABILITIES & EQUITY:							
Deposits	$ -	$ 13,832	$ 27,983	$ 41,815	$ 105,097	$ -	$146,912
Other Liabilities	-	-	-	-	-	5,840	5,840
Shareholder's Equity	-		-	-	-	20,075	20,075
Total	$ -	$ 13,832	$ 27,983	$ 41,815	$ 105,097	$ 25,915	$172,827
Interest-rate Sensitive Gap	14,179	7,685	(3,695)	18,169	3,852	(22,020)	
Cumulative Gap	14,179	21,863	18,169	-	22,020	1	
Cumulative gap as a percentage of total assets	8%	12%	10%		13%		

NOTE 26 SEGMENTED INFORMATION

The Company has four reportable segments: insurance brokerage, banking services, life insurance, and corporate and all other which includes travel agencies and real estate assets. The insurance brokerage segment provides a variety of property, casualty, life and health, and investment products and services to customers across Western Canada through WFG Agency Network. The banking segment commenced operations in January 2003 and provides premium financing to customers of the insurance segment as well as loans and mortgages to other customers through Bank West. The life segment offers a range of disability products along with group life and health through WFG Agency Network and other distribution channels.

The results of these business segments are based on the internal financial reporting systems of the Company. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2.

Management monitors the financial performance of WFG Agency Network based on operating income and customer accounts receivable. The operations of Bank West, and Western Life are monitored based on net income before income tax; the financial position is monitored based on net assets used in that segment as reported in the financial statements of Bank West and Western Life.

Because of the integrated nature of the Company's operations, all other assets, including intangibles and goodwill, are managed and reported at a corporate level. Goodwill is, however, allocated to reporting units within each segment for purposes of impairment testing. All amortization expense and interest on long term debt is recorded as a corporate expense.

	Bank West	(1)	Western Life Assurance	(1)	WFG Agency Network	(1)	Corporate and all other	(1)	Total
REVENUE									
Commission and Other Customer Income	$ -	$ -	$ 66	$ -	$ 66,808	$ (406)	$ 1,713	$ (355)	$ 67,826
Premium Income	-	-	28,242	(960)	-	-	-	-	27,282
Interest Income and Customer Loans	13,805	-	-	-	-	-	-	-	13,805
Loan interest and investment income	-	-	1,665	1,083	6	-	2,579	(120)	5,213
Total Revenue	13,805		29,973	123	66,814	(406)	4,292	(475)	114,126
EXPENSES									
Operating Expenses	(2,848)	135	(12,556)	454	(46,977)	364	(9,898)	768	(70,558)
Policyholder Benefits	-	-	(13,934)	-	-	-	-	-	(13,934)
Interest expense – Customer Deposits	(9,209)	-	-	-	-	-	-	-	(9,209)
Provision for credit losses	(793)	-	-	-	-	-	-	-	(793)
Operating income	955	135	3,483	577	19,837	(42)	(5,606)	293	19,632
Income from long-term investments	-	-	-	-	-	-	2,172	-	2,172
(Loss) gain on sale of investments and capital assets	-	-	1,083	(1,083)	-	-	(400)	-	(400)
Amortization of capital assets	(8)	-	(98)	-	(700)	-	(937)	-	(1,743)
Amortization of intangible assets	(85)	-	-	-	-	-	(849)	-	(934)
Interest and financing costs on longterm debt	(120)	120	(15)	-	(5)	-	(2,768)	-	(2,788)
Income before income taxes	$742	$255	$4,453	($506)	$19,132	($42)	($8,388)	$293	$15,939
Total assets	$ 329,313	$ -	$ 73,108	$ -	$ 62,011	$ -	$ 158,269	$ -	$ 622,701
Goodwill	$ 2,777	$ -	$ 5,161	$ -	$ 82,720	$ -	$ 7,507	$ -	$ 98,165

	Bank West	(1)	Western Life Assurance	(1)	WFG Agency Network	(1)	Corporate and all other	(1)	Total
REVENUE									
Commission and Other Customer Income	$ -	$ -	$ 72	$ -	$ 46,992	$ (348)	$ 1,616	$ (349)	$ 47,983
Premium Income	-	-	23,562	(777)	-	-	-	-	22,785
Interest Income and Customer Loans	8,214	-	-	-	-	-	-	-	8,214
Loan interest and investment income	-	-	2,531	298	30	-	802	-	3,661
Total Revenue	8,214		26,165	(479)	47,022	(348)	2,418	(349)	82,643
EXPENSES									
Operating Expenses	(2,102)	84	(9,906)	396	(32,715)	349	(8,059)	533	(51,420)
Policyholder Benefits	-	-	(13,595)	-	-	-	-	-	(13,595)
Interest expense – Customer Deposits	(5,223)	-	-	-	-	-	-	-	(5,223)
Provision for credit losses	(755)	-	-	-	-	-	-	-	(755)
Operating income	134	84	2,664	(83)	14,307	1	(5,641)	184	11,650
Income from long-term investments	-	-	-	-	-	-	2,323	-	2,323
(Loss) gain on sale of investments and capital assets	-	-	298	(298)	-	-	488	78	566
Amortization of capital assets	(51)	-	(122)	-	(641)	-	(692)	-	(1,506)
Amortization of intangible assets	-	-	-	-	-	-	(439)	-	(439)
Interest and financing costs on longterm debt	-	-	(10)	-	-	-	(2,606)	-	(2,616)
Income before income taxes	$ 83	$ 84	$ 2,830	$ (381)	$ 13,666	$ 1	$ (6,567)	$ 262	$ 9,978
Total assets	$ 172,714	$ -	$ 62,913	$ -	$ 45,974	$ -	$ 103,321	$ -	$ 384,922
Goodwill	$ -	$ -	$ 5,161	$ -	$ 53,624	$ -	$ 780	$ -	$ 59,565

1) Inter-segment eliminations

During 2007, two companies individually comprised 21%, and 14%, of total commissions earned in the WFG Agency Network segments.

During 2006, two companies individually comprised 22%, and 16%, of total commissions earned in the WFG Agency Network segments.

NOTE 27 CONTINGENCIES

The Company occasionally is named as a party in claims and legal proceedings in the normal course ofbusiness. Although there can be no assurance that any particular claim will be resolved in the Company's favor, the Company having regard to existing insurance coverage, does not expect that the outcome of claims will have a materially adverse effect on the Company as a whole.

CORPORATE STRUCTURE

WESTERN FINANCIAL GROUP

CORPORATE AND RESOURCES

- **INSURANCE**
  - WFG AGENCY NETWORK
  - WESTERN LIFE ASSURANCE
- **INVESTMENTS**
- **BANKING**
  - BANK WEST

Mr. Hockey, Gordie Howe, who represents the company in advertising for deposit services and some Western Life term insurance products.

LEADERSHIP GROUP

CORPORATE

Scott Tannas
Doug Bennett
Tom Dutton
Blair Frostad
Bill Rogers
Catherine Rogers
Juliette Rosiechuk

NETWORK

Lana Wood
Teresa Bristow
Mary Lou Charles
Caroline Gould
Nancy Green
Greg McGill
Marvin Pawlivsky
Duncan Scott
Joe Stark

Bruce Ratzlaff
Doug Curtis
Diane McMillan
Barry Spencer

BANK WEST

Bob Marshall
Kathy McReynolds
Ron Munaweera

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Jim Dinning [1,2]
Chairman of the Board of Directors
Calgary, Alberta

Bill Yuill [2]
Vice-Chairman of the Board of Directors
Medicine Hat, Alberta

Diane Brickner [1]
Edmonton, Alberta

Gabor Jellinek [2]
Montreal, Quebec

Robert G. Jennings
Calgary, Alberta

Catherine A. Rogers
CFO and Corporate Secretary
High River, Alberta

Gregg J. Speirs [1]
Calgary, Alberta

Scott A. Tannas
President and CEO
High River, Alberta

Philip L. Webster [1]
Montreal, Quebec

1 Member of the Audit Committee
2 Member of the Compensation Committee

SOLICITORS

Macleod Dixon LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services Inc.
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers, LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: WES

CORPORATE HEADQUARTERS WESTERN FINANCIAL GROUP INC.

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NOTICE OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Western Financial Group will be held on Wednesday, May 7, 2008 at 3:30 PM at the Memorial Centre, 128 - 5th Avenue SW, High River, Alberta. Shareholders and others who are interested in the affairs of the company are welcome to attend.

Western Financial Group

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